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HARVARD

# RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Vol. VI, No. 4 December 4, 1981

## Production Figures for the First 10 Months of 1981

| Product | Oct.81 | Jan.-Oct.81 | % of 1st 10 mos.of 81 over80 |
|---|---|---|---|
| Electricity (bil.kw.hrs) | 111.0 | 1080.0 | 102 |
| Petroleum (incl.gas condens. | 51.8 | 507.0 | 101 |
| Natural Gas (bil.cu.m.) | 40.5 | 382.0 | 107 |
| Coal (mil.tns) | 58.8 | 587.0 | 98 |
| Steel (mil.tns) | 12.3 | 124.0 | 100 |
| Metal-Cutting Tools (mil. rubles) | 162.0 | 1709.0 | 105 |
| Computer Tech. (bil.rubles) | .4 | 4.1 | 112 |
| Television sets (mils.) | .7 | 6.7 | 108 |
| Color T.V.s | .2 | 2.2 | 120 |
| Paper (mil.tns) | .4 | 4.5 | 102 |
| Watches (mils.) | 5.7 | 56.9 | 103 |
| Cement (mil.tns) | 10.7 | 106.0 | 102 |
| Meat (mil.tons) | .9 | 7.1 | 100 9 |
| Margerine (1000 tons) | 121.0 | 1102.0 | 107 |
| Motor Vehicles (1000s) cars | 110.0 | 1095.0 | 99.1 |
| trucks | 69.2 | 651.0 | 99.1 |
| Tractors (1000s) | 46.9 | 463.0 | 100.4 |
| Fertilizer (mil. tons) | 2.1 | 21.9 | 105 |

There is not much change in the production figures for the first ten months of the year compared to what they were for the immediately preceding months of 1981. The one thing to note for the oil watchers in the crowd is that October 1981 production compared to October 1980 production did show a slight increase. The avid readers of this Newsletter may remember that output in September 1981 was just about the same as it was in September 1980. However, production did seem to grow again for October, although the increase was approximately 6/10 of a percent. For the ten month period as a whole, however, production did grow slightly at about 1%. It does continue to look like the Soviets are close to meeting their target for 1981. They should produce about 609 million tons, compared to the goal of 610 million tons. It should be noted by the way that as is pointed out elsewhere in this Newsletter, the Soviet target for 1985 is 630 million tons, somewhat higher than might have been expected. Interestingly enough, however, the Soviets have not published specific figures for their production targets for 1982.

It is also worth noting that meat production continues at about a constant level from what it was in 1980. Because of the very bad grain situation in the Soviet Union, it was reasonable to expect that there would be premature slaughtering of livestock herds. Up until September of 1981, that does not seem to have happened. Now for the first time, however, there is an indication that as of November 1, 1981, the Soviets have begun to cut back on their pig herds. The pig herd as of November 1, 1981 shows a slight drop from what it was in 1980. This is the first time there has been such a drop in the last several months. The herds for other livestock seem to have gone up slightly. It will be interesting to see what the size of the herd is as of December 1st.

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## Final Targets Set for the 11th Five-Year Plan

The Russians have announced their planned targets for 1985. The Supreme Soviet at its meetings in mid-November approved the final targets for the Five-Year Plan. For the average Russian, the figures are not all that exciting.

When the draft of the Plan was presented earlier in March 1981, the Soviets generally set out a range of perspective targets that might be picked. In almost every instance, the Soviets in their November meeting picked either the bottom target or one close to the bottom. As you can see from the accompanying table, except for gas and interestingly enough for petroleum, the Soviets have picked fairly conservative targets. Moreover, the overall rates of growth are not very exciting. In addition, some important figures are left out. For example, there is no figure given for steel production. Finally, of course, it has already been reported that the production figures for agriculture are unusually high. Since production for 1981 is expected to be somewhere around 170 million tons, the likelihood that the Soviets will achieve their average yearly output of 239 million tons for the whole five-year period means that output would have to be 255 million tons for the remaining four years of the five year plan period from 1981-85. In other words, they are quite unusual. The Soviets have also announced a sharp drop in capital spending over the five years. This is most dramatically reflected in statistics published by the planning authorities. They indicate government capital investment for 1981 will be 104% of what it is in 1980. However, capital investment in 1982 will be 103.3% of what it was in 1980. That means there will be a drop in the amount of government investment from 1981 to 1982. There will be a slight increase in 1983 to 105.6% over 1980. There will be a further increase in 1984 to 106.9% over 1980. However, in 1985, there will again be a drop as the projected figures are to be 105.4% over 1980, which means a drop of approximately 1.5% from 1984, and a yearly average of only about 1%.

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Arden House Again

We hope within a month's time to have the formal program of Arden House sent out in the mail. In the meantime, be sure to mark the dates March 5-7, 1982 on your calendar. We will begin Friday evening, March 5th at dinner, and end at noon on March 7th. Among those who have indicated they will participate are: Ambassador Hartman, our present Ambassador to Moscow; Malcolm Toon, former Ambassador to Moscow; Wilhelm Christians, Managing Director of the Deutsche Bank, Dusseldorf; Richard Perle, Assistant Defense Secretary for International Security Planning; Senator Alan Cranston of California; Richard Pipes of the National Security Council; and Robert D. Hormats, Assistant Secretary of State for Economic Affairs.

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| | 1985 Projected Plans March 1981 | 1985 Final Targets November 1981 |
|---|---|---|
| Electricity (bil.kw.hrs) | 1550-1600 | 1555 |
| Petroleum (mil. tons) | 620-645 | 630 |
| Natural Gas (bil.cu.m.) | 600-640 | 630 |
| Coal (mil.tons) | 770-800 | 775 |
| Rolled Steel (mil.tons) | 117-120 | 118 |
| Mineral Fertilizer (mil.tns) | 150-155 | 150.8 |
| Grain (average mil. tons per year) | 238-243 | 239 |

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Currency Figures

| Rubles Purchased Per 100: | Nov.80 | Oct.81 | Nov.81 |
|---|---|---|---|
| Austrian shilling | 4.920 | 4.580 | 4.520 |
| U.K. pound | 159.420 | 131.800 | 132.200 |
| W. German mark | 34.800 | 32.100 | 31.850 |
| U.S. dollar | 66.000 | 71.300 | 70.500 |
| French franc | 15.030 | 12.780 | 12.590 |
| Japanese yen | .310 | .311 | .308 |
| Italian lira | .0736 | .0603 | .0594 |
| Swiss franc | 38.660 | 38.000 | 39.700 |

The currency exchange rates released by Gosbank for November 1981 show that of the currencies reported here, only the British pound and Swiss franc rose in value during the month. All other currencies, including the U.S. dollar, decreased in value.

## Soviet Balance of Trade Figures for the First Half of 1980 and 1981: Soviet Trade Deficit Soars

As we indicated a few months earlier in this Newsletter, the Soviets seem to be having very serious balance of trade problems in 1981. Thanks to Donald Green of Chase Manhattan Bank, we were able to obtain the official Soviet balance of trade figures. As the accompanying table shows, whereas last year the Soviets had a slight trade surplus in their balance of trade dealings with Western Europe and Japan, this year that trade has produced a negative balance of over 600 million rubles. More importantly, once Soviet grain purchases are added to the total, the trade deficit for the first half of the year soars to about 3.4 billion rubles. That compares to 1.9 billion rubles for the first half of 1980. This means that in dollar terms, the Soviet trade deficit is somewhere between $4.5 and $5 billion for the first half of the year. Assuming that conditions are not likely to improve in the third and fourth quarters, that should mean on an annual basis that the Soviet deficit will approach $10 billion. That will exceed the record deficits of the mid 1970s. This helps to explain why the Soviets have begun to hold back on the repayment of their debt to suppliers, and why they seem to be selling gold and platinum. It also helps to explain why they have not as yet entered into the grain market. They may simply be short of cash.

The explanation as before for this deficit seems to be that spot market prices for petroleum have fallen. In addition, their very costly purchases of grain have proven to be an enormous burden for them. It also helps to explain why they are so eager to sign the natural gas pipeline deal, even though it means that the price they accepted for their natural gas is less than they wanted. Clearly they are in very serious need of exports which will provide them with hard currency earnings.

## Corporate Sponsor Seminar on Eastern Europe

As the enclosed application and program indicates, our second corporate sponsor program for the year will focus on Eastern Europe. It promises to be a very stimulating session.

BALANCE OF TRADE - 1ST HALF 1980 AND 1981

(Million Rubles)

| | Exports From USSR | | Imports to USSR | |
|---|---|---|---|---|
| | 1980 | 1981 | 1980 | 1981 |
| Austria | 280 | 392 | 160 | 258 |
| Belgium | 401 | 249 | 176 | 268 |
| Great Britain | 320 | 349 | 516 | 631 |
| Greece | 187 | 350 | 44 | 71 |
| Denmark | 122 | 74 | 39 | 151 |
| Italy | 893 | 1066 | 429 | 498 |
| Netherlands | 567 | 430 | 178 | 334 |
| Norway | 27 | 28 | 39 | 58 |
| Germany | 1076 | 1207 | 1603 | 1586 |
| France | 930 | 1082 | 937 | 922 |
| Switzerland | 173 | 90 | 205 | 291 |
| Sweden | 142 | 93 | 132 | 207 |
| Japan | 471 | 407 | 907 | 1168 |
| Subtotal | 5589 | 5817 | 5365 | 6443 |
| Sub-Balance of Trade | | | +224 | -626 |
| Argentina | 20 | 23 | 590 | 1060 |
| U.S.A. | 87 | 57 | 764 | 892 |
| Canada | 15 | 28 | 321 | 489 |
| Australia | 3 | 8 | 441 | 381 |
| New Zealand | 1 | 2 | 115 | 96 |
| Total | 5715 | 5935 | 7596 | 9361 |
| Balance of Trade | | | -1881 | -3426 |

The Russian Research Center takes no official stand on any economic or political matter. The views and analyses expressed in this Newsletter are those of the authors directly associated with the article in question; and unless otherwise stated, with those of the editor, Marshall I. Goldman.

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HARVARD

# RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Vol. VI, No. 5

January 6, 1982

## PRODUCTION FIGURES FOR THE FIRST ELEVEN MONTHS OF 1981

| Product | Nov.81 | Jan.-Nov.81 | % of 1st 11 mos.of 81 over 80 |
|---|---|---|---|
| Electricity (bil.kw.hrs) | 117.0 | 1197.0 | 102.0 |
| Petroleum (incl.gas condens.) | 50.1 | 557.0 | 101.0 |
| Natural Gas (bil.cu.m.) | 40.5 | 423.0 | 107.0 |
| Coal (mil.tons) | 56.0 | 643.0 | 98.0 |
| Steel (mil.tns) | 11.9 | 136.0 | 100.1 |
| Metal-Cutting Tools (mil. rubles) | 164.0 | 1873.0 | 105.0 |
| Computer Tech. (bil.rubles) | .4 | 4.5 | 112.0 |
| Television sets (mils.) | .7 | 7.4 | 108.0 |
| Color T.V.s | .2 | 2.5 | 120.0 |
| Paper (mil.tons) | .4 | 4.9 | 102.0 |
| Watches (mils.) | 5.5 | 62.4 | 103.0 |
| Cement (mil.tns) | 10.3 | 116.0 | 102.0 |
| Meat (mil.tons) | .7 | 7.8 | 101.0 |
| Margerine (1000 tons) | 124.0 | 1225.0 | 108.0 |
| Motor Vehicles (1000s) cars | 109.0 | 1204.0 | 99.8 |
| trucks | 65.1 | 716.0 | 99.8 |
| Tractors (1000s) | 46.5 | 510.0 | 101.0 |
| Fertilizer (mil.tons) | 2.0 | 23.9 | 105.0 |

The results for the first eleven months of 1981 show very little change over the results for the first ten months of the year. Again oil production for the year is about 1% ahead of where it was last year at this time. Production for the month of November 1981 was the same as it had been in November 1980. This reflects a similar result for September 1981 compared to September 1980. Readers will remember that production in October did go up a bit. Nonetheless, if the Russians manage to produce as much petroleum in December 1981 as they did in December 1980, which was 52 million tons, that should allow them to produce a total of 609 million tons of petroleum, just one million tons below their target. There is no doubt, however, that growth in the future will probably come somewhat slower.

Given the grain problem, it is worth looking at meat production. Official meat production shows a slight increase from what it was last year. Nonetheless, we we noted in the December Newsletter, there are signs of problems ahead. For the second month in a row, the pig stock has fallen. Now the drop is somewhat more significant. The Soviet figures show a drop of not quite 1% in the pig herd as it stood on December 1, 1981, compared to December 1, 1980. In addition, for the first time, the goat and sheep flock has also dropped. This is the first time that has happened in several years. Indeed, even in October 1981, there was a slight increase in the herd. It would not be surprising before too long to see other flocks affected as well. It is conceivable that the Soviets are importing quantities of meat to make up the difference.

## SUPERSTARS AT ARDEN HOUSE

In a few days, you should be receiving the formal notice of the Arden House program for March 5-7, 1982. We find ourselves with an embarrassment of riches. It is almost like trying to decide on the proper order for a theatrical billing. We need a protocol officer to tell us which of the many panelists we should mention first. There seems to be no way not to offend everyone's political sensitivities. To begin with, Senators Alan Cranston and

Nancy Landon Kassebaum will appear on a panel Saturday night. Both of them are on the Senate Foreign Relations Committee. On Friday night's panel, the Undersecretary of State Walter Stoessel who was formerly our Ambassador to Moscow will appear jointly with Ambassador Arthur Hartman who is currently the Ambassador, as well as Malcolm Toon, who also served as Ambassador a few years ago. Other government officials include Robert Hormats, Assistant Secretary of State, Eugene Lawson, Deputy Assistant Secretary for East-West Trade, Richard Perle, Assistant Defense Secretary for International Security Planning, and Richard Pipes from the National Security Council. Donald Novotny and Anton Malish will be there from the Department of Agriculture. Flying over especially from Germany will be Dr. Wilhelm Christians, a member of the Board of Managing Directors of the Deutsche Bank. Walter Sanders, Vice President of Cargill will join in the session on agriculture. In addition, of course, there will be the usual complement of academic specialists. If we had a waiting list last year, we will certainly fill up even faster this year. Be sure to send in your registration form as soon as you receive it.

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CURRENCY FIGURES

| Rubles Purchased Per 100: | Dec.80 | Nov.81 | Dec.81 |
|---|---|---|---|
| Austrian shilling | 4.92 | 4.52 | 4.48 |
| U.K. pound | 158.00 | 132.20 | 135.70 |
| W. German mark | 34.80 | 31.85 | 31.51 |
| U.S. dollar | 66.50 | 70.50 | 69.90 |
| French franc | 14.94 | 12.59 | 12.46 |
| Japanese yen | .310 | .308 | .324 |
| Italian lira | .0729 | .0594 | .0586 |
| Swiss franc | 38.43 | 39.70 | 39.37 |

The currency exchange rates released by Gosbank for December 1981 show no dramatic developments. The British pound rose in value for the second month in a row. The Japanese yen also increased in value this month. All other currencies reported here decreased during the month.

POLAND CAUSES THE SOVIET UNION FOREIGN TRADE HEADACHES

The Soviet Union found it necessary to increase its exports to Poland significantly during the first half of 1981. At the same time, because of the economic disruption from Poland, Poland's exports to the Soviet Union fell sharply. The combined effect of this was to increase the Soviet Union's trade surplus to all of Eastern Europe by about 700 million rubles, or approximately $1 billion more than had been the case during the first half of 1980. As a look at the accompanying table shows, The Soviet Union's trade surplus in the first half of 1981 exceeded 1.1 billion rubles. That was a substantial increase over the 424 million ruble figure for the first half of 1980. Almost all of that increase, however, was due to the fact that the Soviet trade surplus with Poland rose to 800 million rubles compared to 145 million rubles in the first half of 1980. That trade surplus with Poland in turn was caused by that increase in exports to Poland of approximately 400 million rubles, and the drop of Polish exports to the Soviet Union for the first half of 1981, of approximately 300 million rubles.

At the same time, East German exports to the Soviet Union seemed to have risen sharply by over 400 million rubles. That may have been in part to compensate for some of the difficulties in Eastern Europe. The magnitude of the drop of Polish exports to the Soviet Union suggests that Polish exports to the rest of Eastern Europe fell by a similar amount, that is approximately 15-20%. Certainly that must have been disruptive for the rest of the bloc. The implication is that the economic repercussions of the problems in Poland have been quite serious, and there will probably continue to be reverberations for some time to come.

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/FLASH/

We have just received word that Congressman Jonathan Bingham, representative from the state of New York, has agreed to participate on the panel with Senators Cranston and Kassebaum. We heard too late to include Congressman Bingham on the program.

SOVIET BALANCE OF TRADE WITH EASTERN EUROPE
FOR THE FIRST HALF OF THE YEAR
(in million rubles)

| | Exports from USSR | | | Imports to USSR | | |
|---|---|---|---|---|---|---|
| | 1979 | 1980 | 1981 | 1979 | 1980 | 1981 |
| Bulgaria | 1718 | 1804 | 2209 | 1550 | 1801 | 1880 |
| Czechoslovakia | 1698 | 1797 | 2090 | 1556 | 1824 | 2090 |
| GDR | 2017 | 2340 | 2641 | 1909 | 2100 | 2568 |
| Hungary | 1319 | 1448 | 1647 | 1159 | 1362 | 1615 |
| Poland | 1924 | 2084 | 2459 | 1742 | 1939 | 1654 |
| Romania | 547 | 680 | 711 | 550 | 703 | 815 |
| | 9223 | 10153 | 11757 | 8466 | 9729 | 10622 |
| Balance of Trade | +757 | +424 | +1135 | | | |
| Poland | +182 | +145 | + 805 | | | |

EASTERN EUROPE

# How the West helped Poland slide into debt

*Specter of Polish default now haunts banks, governments*

By Marshall Goldman
Special to The Globe

"Would you come out and advise us about lending money to Eastern Europe?" The year was 1976 and the caller a senior vice president of one the country's largest banks. I brought along my tables showing that Eastern European countries were beset by rapidly growing hard currency foreign trade deficits, and were accumulating hard currency foreign debt.

The following year the bank called again, only this time the Eastern European deficits and the debt were larger. To my disappointment, there was no call in 1978. The bank officers had apparently concluded they could not make these loans to Eastern Europe as long as I kept bringing them such gloomy news. Yet to keep up with their bank competitors down the street, they had to keep on with them, and particularly to Poland, or they would lose their customers. For since all the United States' leading banks were awash in extra liquidity, and since it was assumed that the Soviet Union would underwrite any Eastern European defaults, loans to Eastern Europe seemed to be among the safest foreign loans around. Yet my reports were like a bad Dun & Bradstreet credit rating. If there were to be a default, the bank inspectors would not take kindly to the bank officers who had disregarded my words of caution. Thus the solution was simple: stop asking for advice. So in 1978, with no new warnings to deter it, the bank I had been advising offered $50 million in loans to Poland.

This bank was lucky. If it had started earlier, as did its competitors, it might have $75 million to $180 million at risk in Poland, as do almost all of its American competitors, or $400 million, as have two West German banks which, tempted by what seemed to be low risks and high profits, started to lend even earlier, in 1971.

Nor are the bankers the only ones who now find it hard to explain how they could have been so relaxed about lending to Eastern Europe. Western governments were equally eager to provide loans. After all, not quite half of the $27 billion Poland owes the non-Communist world is debt to Western governments. Just as the bankers were eager to fill up their ledgers, so the Western governments and their export-import banks were anxious to extend and underwrite loans. Otherwise, they feared, factory orders would go to other countries. For countries like West Germany, underwriting and extending loans to Eastern Europe was cheap, and politically popular with workers in the bargain, who (in contrast to workers in the East) also have an effective vote. It now turns out that a substantial portion of West Germany's trade surplus has been financed and guaranteed by the state. To the extent that most of these loans will never be paid back, the German taxpayers have in effect been financing a massive public works program for the Poles.

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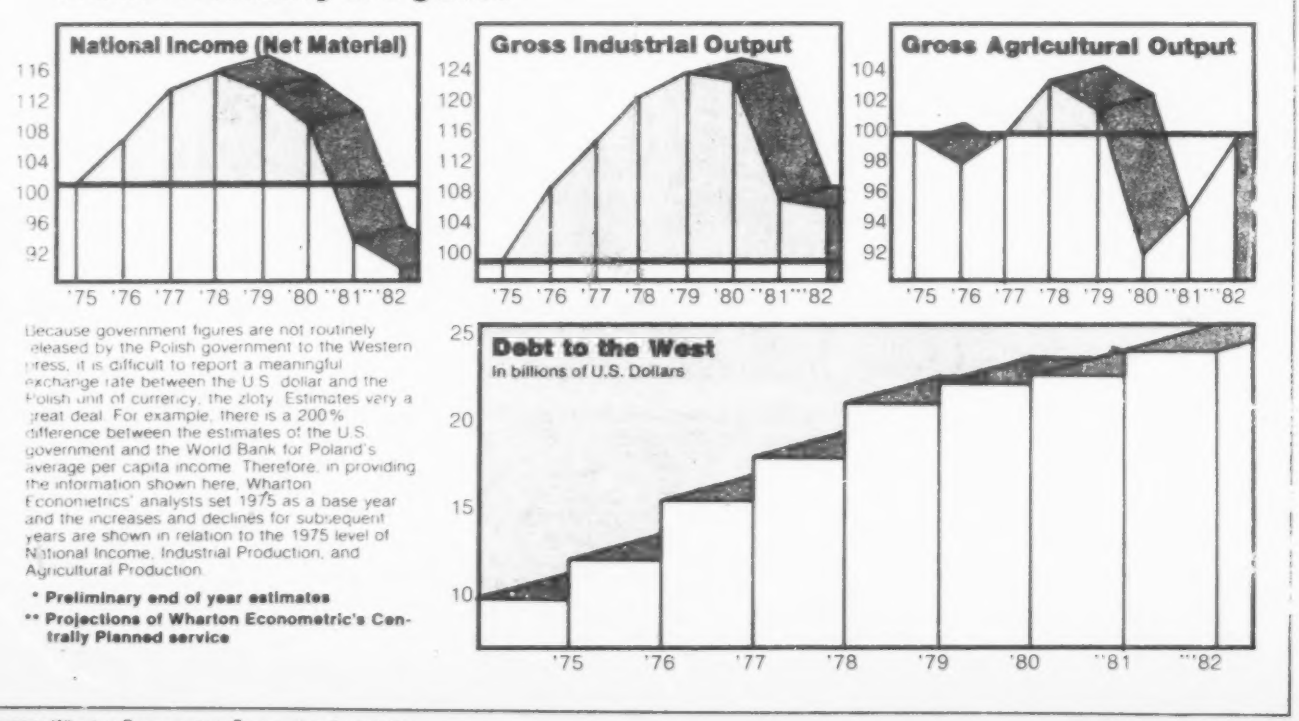
*Marshall I. Goldman is a professor of economics at Wellesley College and associate director of the Russian Research Center at Harvard.*

## Poland's economy at a glance




Because government figures are not routinely released by the Polish government to the Western press, it is difficult to report a meaningful exchange rate between the U.S. dollar and the Polish unit of currency, the zloty. Estimates vary a great deal. For example, there is a 200% difference between the estimates of the U.S. government and the World Bank for Poland's average per capita income. Therefore, in providing the information shown here, Wharton Econometrics' analysts set 1975 as a base year and the increases and declines for subsequent years are shown in relation to the 1975 level of National Income, Industrial Production, and Agricultural Production.

* **Preliminary end of year estimates**

** **Projections of Wharton Econometric's Centrally Planned service**

**Source:** Wharton Econometrics Forecasting Associates

Because credit has been extended with so little caution, the economic repercussions of the Polish crisis promise to be much more widespread than any of us have anticipated. We are not used to worrying about economic collapse in Eastern Europe. After all, what economic impact was there after similar unrest in Hungary in 1956 or Czechoslovakia in 1968? Each Soviet crackdown was followed by a period of political head-knocking, but after some finger-wagging by Western politicians, the Soviets and their Eastern European subordinates went back to business as usual.

What few have come to realize as yet is that the situation today is considerably more complex and that the West is more intimately involved than it was before. The difference is that Poland now is deeply in debt to the outside world, whereas prior to 1971, the Eastern bloc had almost no debt outstanding to the West. Hungary and Czechoslovakia had nothing to default. Poland has.

But certainly this is not the first time that Western bankers and governments have had to worry about default. They worry daily about countries such as Turkey, Peru, Brazil and Zaire. The International Monetary Fund (IMF) sends off missions all the time to recommend cures. Yet Poland is not Peru. Unlike Peru, which could decide for itself, whatever economic solutions Poland and the IMF come up with will also have to be acceptable to the Soviet Union. As we and the Poles have discovered, the Soviets have decided views on what they will and won't tolerate in Eastern Europe.

Thus the economic prospects in Poland are not very bright. The Soviets will not allow Poland to come to grips with the basic structural inappropriateness of the Soviet command-style economy. Yet until there are some reforms, it is unlikely that Polish production will improve enough to be competitive on world markets. Such competition is necessary if the Poles are to repay their debt. That also assumes that the Polish workers will forgive and forget what has happened to Solidarity. Neither assumption is a good one. And since there is little prospect that Poland will be able to work its way out of its debt, the Russians will have to come to their aid, or Western bankers will have to write off their debt.

The Russians have already provided some hard currency loans but are unlikely to come up with much more, particularly since that would be throwing good money after bad. In addition, the Soviet trade imbalance with Poland is already about $2 billion higher than it was last year. Moreover, the Russians are running a hard currency trade deficit of their own of close to $10 billion, double the size of any similar deficit they have had in the past. To pay their own debts, the Russians have been selling gold, which explains why the price keeps falling to below $400 an ounce.

**Improved production depends on the Polish workers, and they may not be willing to forgive and forget what has happened to Solidarity.** AP PHOTO

The Western bankers are faced with similar unpleasantness. They will have to start writing off some of their loans, which will reduce their profits and their lending ability. To offset these losses, the bankers will begin to attach and confiscate Polish ships and property outside of Poland.

But this may not be enough. Some German banks may collapse. Already because of their bad Polish loans, two German banks have not been able to pay dividends for the last two years. The reverberations then could spread far beyond Eastern Europe. Economically, this promises to be one the most unusual crises since World War II.

The Russian Research Center takes no official stand on any economic or political matter. The views and analyses expressed in this Newsletter are those of the authors directly associated with the article in question, or unless otherwise stated, with those of the editor, Marshall I. Goldman

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HARVARD

# RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

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## SOVIET PRODUCTION IN 1981

The Soviet Union has announced its production figures for 1981. These figures continue to reflect a rather bleak industrial picture. There has been some slight improvement in the rate of growth in some products such as paper and steel. Nonetheless, their rates of growth compared to the past growth in the Soviet Union are still rather modest.

At the same time there are other sectors which are quite disappointing. For example, coal production was only 98% of what it had been in 1980. The growth of electricity output rose only 2% compared to the 5% growth of the preceding year. Finally, petroleum production increased by 1% compared to 3% increase the year before. That also means that petroleum production for December 1981 just equalled petroleum production for December 1980; in other words, production has leveled off. Thus output in both November and December 1981 was the same as it had been in November and December 1980. The implication is that output may have peaked.

There are some other points worth noting. As had been widely reported, the Russians did not publish any grain harvest figure at all. That can be taken as a sign that the harvest was very bad and indeed there is a good chance that it was lower than the 1975 million tons predicted by the U.S. Department of Agriculture for the Soviet Union. Conceivably it could be even lower below 170 million tons.

For those agricultural commodities which Soviet authorities did report, the harvest is also not very exciting. Thus the only crop in which production increased over 1980 was potato production. At the same time looking at potato consumption figures, Soviet statistical agencies report that sales of potatoes at the state and cooperative stores fell in 1981 over 1980. The implication is that much of this increase of potato harvest was sold through the collective markets by the peasants directly. The crop, whose production fell the sharpest was sugar beets. Production was down almost a quarter from it had been the preceding year.

The meat situation in particular does not promise to improve very much in the next few months. The Soviets report that their cattle population is virtually the same as it was last year at this time. The pig herd, however, has fallen slightly.

Nor can the Soviets be all that happy about their inability to fulfill the targets they had set out for themselves in 1981. The plan for electrical production in 1981 called for output to reach 1,335 million kilowatt hours. Actual production was only 99% of that. In the extreme case, coal production was to reach 738 million tons, but was only 95% of that. The best news came in the production of natural gas which was 1 1/2% above target. Oil production was virtually on target, only 1 million tons off the plan.

All in all it is not a very encouraging picture, and it is certainly one the Soviet leaders have had to worry about.

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## ARDEN HOUSE WAITING LIST

The response to Arden House this year has been the best in all our six years. We have had now to set up a waiting list. I suspect we will have to disappoint some who have waited to send in application blanks.

Although experience teaches us that there will always be some attrition among the speakers before the conference, so far we expect all our speakers to be present. In fact, we have had one addition, Governor Averell Harriman will also be joining us Friday night on the panel of former ambassadors. There is always a special flavor to having Governor Harriman present at his one-time home. We also are impressed by the caliber and experience of those who have signed up to attend Arden House. All in all, it promises to be our most exciting conference ever.

## INDUSTRIAL PRODUCTION FOR THE 12 MONTHS OF 1981

| | Jan.-Dec. 1980 | % of 12 mos. 80 over 12 mos. 79 | Jan.-Dec. 1981 | % of 12 mos. 81 over 12 mos. 80 |
|---|---|---|---|---|
| Electricity (bil. kw. hours) | 1295 | 105 | 1325 | 102 |
| Petroleum (including gas condensate, mil. tons) | 603 | 103 | 609 | 100.9 |
| Natural Gas (bil. cu. meters) | 435 | 107 | 465 | 107 |
| Coal (mil. tons) | 716 | 99.7 | 704 | 98 |
| Steel (mil. tons) | 148 | 99.2 | 149 | 100.4 |
| Computer Technology (bil. rubles) | 4.5 | 114 | 5 | 110 |
| Watches (mils.) | 66.7 | 103 | 68.6 | 103 |
| Radios (mils.) | 8.5 | 100 | 8.7 | 103 |
| Television sets (mils.) | 2.3 | 125 | 8.2 | 109 |
| Paper (mil. tons) | 5.3 | 100.7 | 5.4 | 102 |
| Cement (mil. tons) | 125 | 102 | 127 | 102 |
| Meat (mil. tons) | 15.1 | 98 | 15.2 | 101 |
| Vegetable Oil Prods. (mil. tons) | 2.6 | 94 | 2.6 | 98 |
| Motor Vehicles | 2199 | 101 | 2197 | 99.9 |
| cars (100s) | 1327 | 101 | 1324 | 99.8 |
| trucks (100s) | 787 | 100.9 | 786.6 | 100 |
| Tractors | 47 | 100.8 | 47.9 | 102 |
| Grain | 189.2 | 106 | -- | -- |
| Wheat | 98.1 | 109 | -- | -- |
| Rye | 10.2 | 126 | -- | -- |
| Corn | 9.7 | 115 | -- | -- |
| Rice | 2.8 | 117 | -- | -- |
| Cotton | 9.96 | 109 | 9.6 | 96 |
| Sugar beets | 79.6 | 105 | 60.6 | 76 |
| Sunflower | 4.65 | 87 | 4.6 | 99 |
| Potatoes | 66.9 | 74 | 72 | 108 |
| Vegetables | 25.9 | 25.6 | 25.6 | 99 |

## CURRENCY FIGURES

| Rubles Purchased Per 100: | Jan.81 | Dec.81 | Jan.82 |
|---|---|---|---|
| Austrian shiling | 4.79 | 4.48 | 4.40 |
| U.K. pound | 162.20 | 135.70 | 134.00 |
| W. German mark | 34.10 | 31.51 | 30.85 |
| U.S. dollar | 67.80 | 69.90 | 71.00 |
| French franc | 14.70 | 12.46 | 12.14 |
| Japanese yen | .333 | .324 | .315 |
| Italian lira | .0717 | .0586 | .0576 |
| Swiss franc | 34.43 | 39.37 | 38.34 |

The currency exchange rates released by Gosbank for January 1982 show a decrease in value for most currencies reported here. With the exception of the U.S. dollar, which rose in value, all other currencies decreased in value, both from the preceding month and from January 1981.

## SOVIET TRADE BALANCE CONTINUES TO DETERIORATE

Soviet hard currency trade figures for the first nine months of 1981 indicate that the Soviet Union still has a very significant hard currency trade deficit. The Soviets imported approximately 4 billion rubles more in the first nine months of 1981 than they imported. That compares to a 1.6 billion ruble deficit for the comparable period in 1980. In other words, the trade deficit has more than doubled. At the same time, there does seem to be some lessening of the magnitude of the trade deficit for 1981 during the third quarter, compared to the results published for the first half of the year. At the rate established during the first half of the year, the trade deficit looked like it would amount to as much as 7 billion rubles, which is approximately $10 billion. Now the figure, at the rate established during the first nine months of 1981, suggests that the total deficit for the year will approximate 6 billion rubles, which is approximately $9 billion.

Our calculations show that the trade deficit is considerably more serious than general press reports and some newspapers indicated in early January of 1982. That was largely because they neglected to include imports of grain from countries like Argentina, Australia, and Brazil.

As for the first six months of the year, the explanation for the very large trade deficit is first of all, the need to import grain, and second of all, the apparent falloff in the revenues earned from the sale of petroleum. In part this is due to a slightly lower export of petroleum itself and also a fall in the price of petroleum on the spot market. This is best indicated by the drop in exports to the Netherlands and to Belgium where the Soviets have very large storage facilities. At the same time, however, apparently their natural gas imports did increase. This is reflected in increased sales to West Germany, Italy, and France.

## INCREASE IN SALES OF GOODS AT STATE AND COOPERATIVE STORES

| | Percent Increase 1981 over 1980 |
|---|---|
| Bread products | 101 |
| Meat & meat products | 101 |
| Fish & fish products | 103 |
| Butter | 97 |
| Vegetable oil | 101 |
| Margerine products | 105 |
| Whole milk products | 102 |
| Cheese | 101 |
| Eggs | 105 |
| Sugar | 102 |
| Candy | 102 |
| Tea | 103 |
| Potatoes | 97 |
| Vegetables | 101 |
| Fruits & citrus fruits | 102 |
| Clothing | 106 |
| Leather shoes | 109 |
| Furniture | 108 |
| Refrigerators | 102 |
| Watches | 101 |
| Cameras | 100 |
| Motorcycles | 101 |
| Televisions | 100 |
| Color televisions | 107 |
| Automobiles | 115 |

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BALANCE OF TRADE - 1ST NINE MONTHS OF 1980 & 1981

(Million Rubles)

| | Exports From the USSR | | Imports to the USSR | |
|---|---|---|---|---|
| | 1980 | 1981 | 1980 | 1981 |
| Austria | 433 | 632 | 261 | 362 |
| Belgium | 612 | 350 | 263 | 342 |
| Great Britain | 560 | 515 | 727 | 785 |
| Greece | 292 | 448 | 66 | 82 |
| Denmark | 187 | 168 | 53 | 194 |
| Spain | 175 | 216 | 109 | 347 |
| Italy | 1467 | 1761 | 648 | 757 |
| Netherlands | 888 | 662 | 274 | 385 |
| Norway | 37 | 44 | 54 | 73 |
| Germany | 1839 | 2501 | 2264 | 2099 |
| France | 1577 | 1749 | 1236 | 1289 |
| Switzerland | 297 | 183 | 301 | 390 |
| Sweden | 256 | 182 | 242 | 281 |
| Japan | 715 | 589 | 1265 | 1593 |
| Subtotal | 9335 | 10,000 | 7763 | 8979 |
| Sub-Balance of Trade | | | +1572 | +1021 |
| Argentina | 27 | 28 | 891 | 2069 |
| U.S.A. | 99 | 105 | 882 | 1058 |
| Canada | 21 | 41 | 614 | 892 |
| Australia | 4 | 10 | 589 | 461 |
| New Zealand | 2 | 5 | 148 | 146 |
| Brazil | 16 | 9 | 169 | 523 |
| Total | 9504 | 10198 | 11056 | 14128 |
| Balance of Trade | | | -1552 | -3930 |

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HARVARD

# RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Vol. VI, No. 7 March 15, 1982

## INDUSTRIAL PRODUCTION FOR JANUARY 1982

| Product | Jan. 1982 | % of Jan. 82 over Jan. 81 |
|---|---|---|
| Electricity (bil. kw. hrs.) | 129 | 103.0 |
| Petroleum (including gas condensate, mil. tons) | 51.5 | 99.8 |
| Natural gas (bil. cu. meters) | 42.6 | 106.0 |
| Coal (mil. tons) | 61.7 | 97.0 |
| Steel (mil. tons) | 12.4 | 95.0 |
| Fertilizer (mil. tons) | 2.2 | 96.0 |
| Metal-Cutting Tools (mil. rubles) | 161.0 | 101.0 |
| Computer Technology (mil. rubles) | 292.0 | 79.0 |
| Watches (mils.) | 5.5 | 98.0 |
| Radios (1000s) | 647.0 | 95.0 |
| Television sets (1000s) | 625.0 | 100.0 |
| Paper (1000 tons) | 437.0 | 94.0 |
| Cement (mil. tons) | 9.8 | 92.0 |
| Meat (1000 tons) | 758.0 | 92.0 |
| Margerine (1000 tons) | 118.0 | 98.0 |
| Motor Vehicles (1000s) | | |
| cars | 104.0 | 92.0 |
| trucks | 64.3 | 98.0 |
| Tractors (1000s) | 46.7 | 98.0 |

## ECONOMIC DOWNTURN IN JANUARY 1982

It may be that January 1982 had five Sundays or it may be that the New Year's celebration lasted too long, but production figures for January 1982 in comparison with January 1981 should give considerable cause for alarm in Gosplan and in the Council of Ministers.

The first hint of difficulty is that unlike every January in the past, the Soviets did not publish the percentage change of output for each individual item. Usually they publish two columns of figures, the actual output in tons or meters and the percentage change from the preceding period. Since that material is not immediately available, that means the reader must himself calculate the material. Once those calculations are made, it is immediately realized why the figures are not made readily available. In our traditional list of industrial commodities, the only ones which show any increase in production are electricity, gas, and machine tools. Everything else is either at a constant level or drops. Moreover, the drop is not just one or two percentage points, but in some instances a significant amount. Thus cement production, meat production, and automobile production are all down 8%. Even more striking, oil production dropped slightly by a fraction of 1%. Production in January 1981 was 51.6 million tons whereas this year in January it was 51.5 million tons. That seems to reflect the continual levelling off of production.

The meat herds in the Soviet Union continue to reflect the shortage of grain. The pig herd is down now a full 1% and there is also a decline in the number of sheep and goats. Other types of livestock have increased, although the fact that meat production was down by 8% suggests the Soviets are clearly having a problem.

SOVIET BALANCE OF TRADE WITH EASTERN EUROPE
FOR JANUARY - SEPTEMBER

(in million rubles)

| | Exports from USSR | | | Imports to USSR | | |
|---|---|---|---|---|---|---|
| | 1979 | 1980 | 1981 | 1979 | 1980 | 1981 |
| Bulgaria | 2505 | 2692 | 3225 | 2335 | 2622 | 2751 |
| Czechoslovakia | 2475 | 2701 | 3108 | 2230 | 2617 | 3060 |
| GDR | 3152 | 3559 | 4037 | 2901 | 3195 | 3861 |
| Hungary | 2035 | 2161 | 2445 | 1776 | 2035 | 2413 |
| Poland | 2793 | 3211 | 3667 | 2653 | 2757 | 2419 |
| Romania | 785 | 961 | 1111 | 788 | 1065 | 1237 |
| | 13745 | 15285 | 17593 | 12683 | 14291 | 15741 |
| Balance of Trade | | | | | | |
| | +1062 | +994 | +1852 | | | |
| Poland | +140 | +454 | +1248 | | | |

## THE SOVIET UNION'S TRADE PROBLEMS WITH POLAND CONTINUE TO GROW

During the first nine months of 1981, the Soviet Union found itself with a trade surplus with its East European allies of 1.9 billion rubles. That is approximately $2.7 billion. Unlike a hard currency trade surplus, the Soviets do not like to build up a trade surplus with their East European allies. Indeed, the goal is to insure that there is no trade surplus, and that exports just equal imports.

The bulk of that trade surplus, as during the first six months of 1981, was caused by the Soviet Union's increase in exports to Poland. Exports in 1981 for the first nine months of the year increased by over 400 million rubles, while their imports from Poland dropped by 300 million rubles. That is a good indication of just how disruptive Poland's economic problems have been for the bloc. That drop in exports to the Soviet Union means that the Soviet Union has received less coal and other spare parts than it had anticipated. The magnitude of the problem is best illustrated by comparing the trade surplus for the first nine months of the year of 1979 with those of 1981. In the earlier period, the Soviet Union had a trade surplus of 140 million rubles. By 1981, that trade surplus had grown to over 1 billion rubles more.

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## CURRENCY FIGURES

| Rubles Purchased Per 100: | Feb. 81 | Jan. 82 | Feb. 82 |
|---|---|---|---|
| Austrian shilling | 4.63 | 4.48 | 4.33 |
| U.K. pound | 164.80 | 134.00 | 131.66 |
| W. German mark | 32.62 | 30.85 | 30.32 |
| U.S. dollar | 71.00 | 71.00 | 71.90 |
| French franc | 14.15 | 12.14 | 11.89 |
| Japanese yen | .344 | .315 | .304 |
| Italian lira | .0694 | .0576 | .0564 |
| Swiss franc | 35.85 | 38.34 | 38.23 |

The currency exchange rates released by Gosbank for February 1982 show that for the second month in a row, the U.S. dollar was the only currency (reported here) which rose in value from the preceding month.

## CORPORATE SPONSOR CONFERENCE

The last Corporate Sponsor Conference of the year will focus on Soviet economic growth in 1981. Given the Soviets' economic difficulties, it should prove to be very interesting. The program and application form are enclosed with this Newsletter.

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## LETTERS TO THE EDITOR

Keith Bush writes us from Munich that our speculation about the increase in meat exports is correct. We noted in the January Newsletter that the Soviets were probably importing significant quantities of meat to make up for the slaughter. He reports that his data show the Soviets were importing as much as 800,000 tons of meat in 1981.

He also notes a somewhat less than precise use of words in that same Newsletter. In particular, he is puzzled by our sentence which says, "There is no doubt, however, that growth in the future will probably come somewhat slower." He underlined the phrases there is no doubt and probably, which he found incompatible in the same sentence. Unfortunately, there is no doubt that we will probably make the same mistake in the future, but we enjoy his letters.

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The Russian Research Center takes no official stand on any economic or political matter. The views and analyses expressed in this Newsletter are those of the authors directly associated with the article in question; or unless otherwise stated, with those of the editor, Marshall I. Goldman

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Christian Science Monitor
Friday, February 19, 1982

# Don't rush to declare Poland in default

**By Abram Bergson**

Poland's debts to the West are much in the news these days. The Poles have been delinquent in meeting those obligations, and with as much as $25 billion due pressure is mounting in some official circles, particularly within the Reagan administration, to have Poland declared legally in default. That may seem to be an obvious step to take, but it could be a blunder.

A declaration that Poland is in default would require Western bankers finally to write off claims against Poland that they have in their portfolios. They are understandably reluctant to do that while there is any hope that Poland will make good. With default, Poland's creditors could try to seize Polish assets abroad, but the amount of such assets is very limited.

The alternative to default, of course, is that Western creditors agree to reschedule the Polish debts. That they already have been doing, and they apparently wish, for the present, to continue to do so.

So far as banks do lose, it is difficult to weep over their predicament. They were imprudent to lend Poland the vast sums that they did. About one-fourth of the total Polish debt outstanding, however, was lent or guaranteed by Western governments, and Western governments rather than banks would bear the losses to that extent.

But what is mainly at issue is a political question concerning the West's policy toward Poland in its present dire circumstances. From that standpoint, it might seem that having Poland declared in default is all the more in order. That would mean the practical exclusion of Poland from Western capital markets for some time to come. Those urging a declaration of default hold that assuring such exclusion is just what we must do in response to the Polish government's own declaration of martial law.

That is certainly an appealing argument. But, if dissidence flourished for a time in Poland and Solidarity was able to gain a footing there, probably not the least of the reasons was the restraining influence exerted by Polish financial dependence on the West on Poland's authoritarian communist regime and its Soviet masters.

Grim as the outlook now is in Poland, it is too early to conclude that that source of restraint has exhausted its possibilities. The Polish economy is down-and-out. Although the Russians reportedly provided Poland with some $4 billion of aid last year, how much of that was in hard currency, usable in meeting obligations to the West, as distinct from Soviet goods, is another matter.

The Russians in any event are having problems in paying their own debts to Western creditors, and their economy continues to be beset with difficulties internally. They cannot be exactly eager to have the West withdraw from financing the Polish economy.

In short, Western credits might still be exploited as a bargaining counter to assure survival of a modicum of Solidarity's heartening but overly optimistic program. In the end, a declaration of Polish default may be unavoidable, but to precipitate such action would be to nullify the limited leverage that the West has over political developments there.

Poland is in deep difficulty financially, but it remains to say that among Russia's East European allies it is by no means alone in having incurred an imposing volume of debts to the West. It is also not alone in experiencing difficulties in meeting such obligations.

Romania, for example, is clearly in trouble in carrying its more than $8 billion debt to the West. At the Romanian government's request, Western creditors have just agreed to reschedule some of those obligations. Russia's East European allies together owed the West as much as an estimated $54 billion at the beginning of 1980.

The vast total epitomizes, as perhaps nothing else could, the meaning of détente for East-West economic relations. It is only in the last decade or so, after the tensions of the Cold War had abated, that the East European communist countries have been able to borrow and the West willing to lend on such a scale.

And if the credits to Poland have been excessive commercially, that is apparently also true of the credits to Romania. There are often reasons to wonder at the commercial soundness of the West's loans to Russia's East European associates more generally.

Here, too, however, there have been some political gains. Thus, Romania's Ceausescu has probably been able to pursue his own inclinations (as distinct from Brezhnev's) in foreign policy to a greater degree than he could have done otherwise because of his access to Western credits. As for Poland, so for other East European allies of the USSR, the West must carefully weigh all of the consequences, political as well as economic, before it severs entirely its financial ties with them.

continued on next page...

Russia, too, as indicated, has been borrowing from the West and has been encountering difficulties in meeting the resultant obligations. Lately the USSR has been asking Japanese and West German business firms to defer maturities on credits that they extended to that country.

The Soviet difficulties, however, are probably of a short-run sort, reflecting mainly the recession-reduced Western demand for Soviet exports and last year's grain crop failure, the third in a row, and the resultant need for sizable grain imports. With 1980 gold reserves at an estimated 58 million ounces or $22 billion at today's prices, the USSR should still be able to service a hard currency debt that has lately amounted to about $10 billion or less than 1 percent of the Soviet GNP.

The Soviet stringencies, though, expose even more clearly than had been done before a curious misconception under which some Western banks have labored: because of their system of planning, it has been assumed, communist countries must be immune to commercial crises such as create international financial stringencies in the West. For those preferring Western markets to Eastern planning systems, exposure of that particular fallacy may be among the more significant positive outcomes from the whole experience with détente in the West's commercial connections with the East.

*Abram Bergson is George F. Baker Professor of Economics at Harvard University.*

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HARVARD

# RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Vol. VI, No. 7

April 6, 1982

## INDUSTRIAL PRODUCTION FOR FEBRUARY 1982

| Product | Feb. 1982 | Jan.-Feb.82 | % Jan.-Feb. 1982 over Jan.-Feb.81 |
|---|---|---|---|
| Electricity (bil.kw.hrs.) | 117.0 | 246.0 | 103.4 |
| Petroleum (including gas condensate) (mil. tons) | 46.5 | 98.0 | 99.8 |
| Natural Gas (bil.cu.m.) | 39.1 | 81.7 | 106.4 |
| Coal (mil.tns) | 59.4 | 121.1 | 99.3 |
| Steel (mil.tns) | 11.5 | 23.9 | 95.6 |
| Fertilizer (mil.tons) | 2.1 | 4.3 | 97.7 |
| Metal-Cutting Tools (mil. rubles) | 169.0 | 330.0 | 101.5 |
| Computer Tech. (mil.rubles) | 286.0 | 578.0 | 76.8 |
| Watches (mils) | 5.6 | 11.1 | 100.0 |
| Radios (1000s) | 696.0 | 1343.0 | 98.9 |
| Television sets (1000s) | 650.0 | 1275.0 | 99.9 |
| Paper (1000 tons) | 408.0 | 845.0 | 93.3 |
| Cement (mil. tons) | 8.3 | 18.1 | 88.3 |
| Meat (1000 tns) | 609.0 | 1367.0 | 93.6 |
| Margerine (1000 tons) | 118.0 | 236.0 | 100.0 |
| Motor Vehicles (1000s) cars | 105.0 | 209.0 | 95.0 |
| trucks | 64.2 | 128.5 | 98.8 |
| Tractors (1000s) | 46.0 | 92.7 | 99.6 |

## OIL PRODUCTION FALLS IN THE SOVIET UNION

Just as three robins do not make a spring, so three consecutive months of a decline in oil output do not spell collapse for the Soviet petroleum industry. The statistics do indicate, however, that the Soviets are having difficulty in increasing their oil production. Beginning in December 1981, and continuing through January and February 1982, oil production has dropped approximately one-half million tons a month compared to what it had been last year during those three months. That amounts to a drop so far for 1982 of about one million tons below what the Soviets should have been producing, and probably to another one or two million tons below the Plan. It may well be that before the year is out, production will be back to its anticipated level. However, it is the first time that production has dropped three consecutive months in a row since the 1940s. This is obviously a worrisome sign for the Soviets.

However, this drop in production so far has been moderate, and the likelihood is that in the future, if production does not increase, the drop will be similarly moderate. The original CIA projections of 1977 anticipated that the drop would be a much sharper one. Output was expected to fall from 11 million barrels a day to 8-10. It was never anticipated that production would rise to 12 million barrels a day. It should be noted, therefore, that even with the drop, production is still above 12 million barrels a day, a world record.

There is no doubt that the Russians need that petroleum because world market prices have fallen, and therefore the Soviets have to export more to obtain the hard currency they need. Their hard currency needs remain high. We will have more to say about that in next month's Newsletter.

Output of other items in February seems to have improved a bit from the very serious decline in output which appeared in January of

1982. However, output for the first two months is still below what it was in 1981 for the comparable period for many items. Obviously the Soviet are still quite worried.

## THE SLAUGHTER OF LIVESTOCK CONTINUES

Reflecting the poor harvest, the Soviets apparently have stepped up their slaughter of pigs. the pig herd as of February 1982 was down more than 1% of what it had been in February 1981. The cattle herd is still increasing, as is the chicken population. However, sheeps and goats are also down slightly. In addition, meat production has fallen over 6% from the first two months of 1982 from 1981. That would seem to support reports of a very critical food supply problem in the Soviet Union.

## CURRENCY FIGURES

| Rubles Purchased Per 100: | March 1981 | Feb. 1982 | March 1982 |
|---|---|---|---|
| Austrian shilling | 4.72 | 4.33 | 4.33 |
| U.K. pound | 157.00 | 131.66 | 130.00 |
| W. German mark | 33.45 | 30.32 | 30.32 |
| U.S. dollar | 70.60 | 71.90 | 71.90 |
| French franc | 14.20 | 11.89 | 11.89 |
| Japanese yen | .340 | .304 | .302 |
| Italian lira | .0690 | .0564 | .0564 |
| Swiss franc | 36.65 | 38.23 | 38.23 |

Currency exchange rates for the English pound and Japanese yen dropped slightly in value from the preceding month. All other currencies reported here remained the same in March 1982. The U.S. dollar and Swiss franc are the only currencies that reflect a higher value in March 1982 than last year at this time.

## FEBRUARY 8th CORPORATE SPONSOR SEMINAR

The second Corporate Sponsor Seminar of the year, "Whither Eastern Europe?", was held at the Harvard Faculty Club on Monday, March 8, 1982.

The first session of the day began with a discussion of the factors leading to the present crisis in Poland, and then examined prospects for the future. Madeline Albright, presently at the Kennan Institute in Washington, spoke about her experience in studying the Polish press and her recent (November 1981) visit to Poland. She noted both a sense of unity in Poland, particularly evident during the Pope's visit, and the various schisms that exist within Polish society. During times of crisis, however, the moderates in all sectors go to the extreme - as was recently the case in Poland. Adam Ulam of Harvard University and the Russian Research Center advocated holding firm on economic sanctions, both toward the bloc as well as Poland. He sees economic leverage as a feasible means of restoring some degree of freedom and independence. Tadeusz Szafar of the Russian Research Center believes the workers' movement has had a minimal impact on the communist establishment in Poland because the military sector, and in large part, the media, have remained out of bounds to Solidarity.

The second session of the day discussed economic developments in Poland and their impact on the rest of the Communist bloc. Leon Smolinski of Boston College finds Polish economic history to reveal a general failure to use investment, including foreign investment, wisely. Indeed, investment has been treated as a substitute for much needed economic reform. In any future economic dealings with Poland, Mr. Smolinski advises linking economic help with the introduction of some sort of pluralistic system, making the latter a precondition of the former. Lee Kjelleren, Vice President of Manufacturers Hanover Trust Co., spoke on the posture of Western banks toward the present economic crisis in Poland. He emphasized that the degree of exposure on the part of individual U.S. banks is not as high as one might be led to expect; Poland's debt to the U.S. government is much higher. Mr. Kjelleren believes American bankers are not to be blamed for being too hasty to offer credits to Poland; at the time all factors pointed to Poland being an excellent risk. In conclusion, Mr. Kjelleren sees no advantage in calling Poland in default, "why drive the Poles into the arms of the Soviets?" Clifton Smith of Corning Glass Works spoke of his experience as Director of Corning's Polish Color Television project.

Mr. Smith summarized the problems plaguing the Polish economy as consisting of "the four M's : no management, no motivation, no money, and no materials." The most basic problem he feels stems from the fear of "risk" decisions on the part of Polish engineers; the engineers are excellent but the system renders them ineffective. Marshall Goldman of Wellesley College and the Russian Research Center closed the second panel by tracing Poland's gradual economic decline since the early 1970s (Gierek's coming to power), and then detailed the effect Poland's economic crisis will have on the rest of Eastern Europe. In particular, he views Poland's poor economic showing as jeopardizing the ability of countries such as Romania, Hungary and East Germany to obtain additional credit from Western banks.

The last panel of the day concerned discussions of the GDR, Romania, and Yugoslavia and their reactions to the events in Poland. Norman Naimark of Boston University described relations between Poland and East Germany as being none too warm, both traditionally and in the present. Indeed, visits to East Germany by Polish citizens were done mainly for the purpose of raiding East German stores. Since the advent of Poland's economic difficulties, East Germany has begun to rely more heavily on West Germany and the USSR for its import needs. Mr. Naimark sees the GDR's main concerns at present stemming from a problem of legitimacy. Since the government cannot appeal to its citizens as "Germans" (there also existing another German state), they are now trying to establish their claim as "the heirs of Prussian kingdom."

Mary Ellen Fischer of Skidmore College contrasted the situation in Poland with that in Romania. Unlike Poland, Romania suffers no problem of leadership - President Ceausescu completely controls the political system. Also unlike Poland, Romania has tried to be as self-sufficient as possible and has wisely avoided amassing an enormous foreign debt. Because of these factors, it is unlikely that economic leverage can be used to effect internal change with the system.

Susan Woodward of Williams College summarized Yugoslavia's domestic situation, pointing out the essential differences between Yugoslavia's and Poland's economic policies. Contrary to Poland, Yugoslavia has a highly decentralized economy. This factor diminishes the likelihood of local disputes posing any serious threat to local or national authority. Also, due to ethnic diversity, the Yugoslav government is less likely to encounter unified protest from its working class.

Ellen Lapenson

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ADDITIONAL SPEAKER FOR FINAL CORPORATE SPONSOR PROGRAM OF THE YEAR

The last Corporate Sponsor Program of the academic year will be held in Cambridge on Monday, April 26th. The theme will be "A Critical Look at the Soviet Economy."

A preliminary program was sent out last month. There has been one addition to the program. James Noren of the CIA will join the morning discussants to analyze Soviet industrial growth, productivity, and capital investment. As usual, an application form is enclosed with this Newsletter.

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The Russian Research Center takes no official stand on any economic or political matter. The views and analyses expressed in this Newsletter are those of the authors directly associated with the article in question; or unless otherwise stated, with those of the editor, Marshall I. Goldman.

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HARVARD

# RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Vol. VI, No. 8 May 10, 1982

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## INDUSTRIAL PRODUCTION FOR THE FIRST QUARTER OF 1982

| Product | 1st quarter of 1982 | % of 1st quarter 1982 over 1st quarter 1981 |
|---|---|---|
| Electricity (bil.kw.hrs.) | 369.0 | 103 |
| Petroleum (including gas condensate) (mil. tons) | 150.0 | 100.1 |
| Natural Gas (bil.cu.m.) | 125.0 | 107 |
| Coal (mil.tons) | 186.0 | 101 |
| Steel (mil.tns) | 36.8 | 97 |
| Fertilizer (mil. tons) | 6.7 | 99.4 |
| Metal-Cutting Tools (mil. rubles) | 518.0 | 106 |
| Computer Tech. (bil. rubles) | .7 | 108 |
| Watches (mils.) | 17.2 | 102 |
| Radios (mils.) | 2.1 | 99.7 |
| Television sets (mils.) | 2.0 | 102 |
| Color T.V.s | .7 | 117 |
| Paper (mil.tns) | 1.3 | 95 |
| Cement (mil.tns) | 28.5 | 91 |
| Meat (mil. tns) | 2.1 | 98 |
| Margerine (1000 tons) | 375.0 | 102 |
| Motor Vehicles cars (1000s) | 542.0 | 97 |
| trucks | 152.0 | 92 |
| Tractors (mils.) | 12.2 | 101 |

## INDUSTRIAL PRODUCTION FOR THE FIRST QUARTER OF 1982

Generally, Soviet industry during the first quarter of 1982 continues to have some difficulties. There seems to be a slight improvement in production in March over what took place in January and February, but nonetheless, most of the industrial indicators are still down. Clearly there do seem to be serious problems. At the Corporate Sponsor Conference at Harvard on April 26th, James Noren of the CIA suggested that one of the reasons for the difficulties was that industrial supplies of such raw materials as coal and sulphur have not met the quality standards the Soviets usually seek. A further explanation of that breakdown in supply may very well be that some of those commodities have been coming from Poland, and the disruption that has taken place in Poland has reverberated out to effect the Soviet Union as well.

The one bit of good news the Soviets have in their industrial figures is that oil production for the first quarter seems to be back to the level that it had reached in the first quarter of 1981. Even more important, that means that March production made up for the drop that we had reported earlier which took place in January and February. That means that for March alone, production was up 2% in March 1982 over March 1981. As we said last time, three robins do not make a spring. That seems to be the case in this instance.

## LIVESTOCK HERDS

The pig herd is now down by 2% for the first quarter of 1982 compared to 1981. In other words, the percentage is growing. Goats and sheep are now done by 1%. In addition, it is also reported that the cattle herd is down in the Russian Republic, although for the Soviet Union as a whole, it has increased slightly. This shows the continuing impact of the grain embargo and the bad weather.

## Balance of Trade, 1976, 1977, 1978, 1979, 1980, 1981

| | EXPORTS FROM USSR | | | | | | IMPORTS TO USSR | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 | 1976 | 1977 | 1978 | 1979 | 1980 | 1981 |
| Austria | 274 | 352 | 371 | 442 | 580 | 854 | 192 | 263 | 272 | 368 | 396 | 507 |
| Belgium | 323 | 353 | 408 | 533 | 842 | 747 | 218 | 220 | 257 | 286 | 383 | 450 |
| Great Britain | 825 | 958 | 836 | 1094 | 859 | 645 | 408 | 375 | 662 | 811 | 953 | 858 |
| Greece | 162 | 237 | 189 | 180 | 409 | 538 | 62 | 78 | 70 | 65 | 92 | 100 |
| Denmark | 155 | 200 | 193 | 301 | 261 | 252 | 53 | 50 | 46 | 72 | 80 | 208 |
| Spain | 165 | 163 | 113 | 152 | 251 | 274 | 61 | 63 | 93 | 144 | 152 | 375 |
| Italy | 1069 | 1091 | 1112 | 1292 | 2111 | 2484 | 709 | 790 | 858 | 863 | 934 | 1002 |
| Netherlands | 367 | 399 | 300 | 903 | 1027 | 1019 | 175 | 166 | 162 | 243 | 361 | 458 |
| Norway | 44 | 72 | 59 | 87 | 49 | 52 | 57 | 52 | 66 | 51 | 79 | 96 |
| Portugal | 75 | 79 | 59 | 88 | 91 | 146 | 40 | 37 | 32 | 35 | 37 | 37 |
| Germany | 1178 | 1343 | 1498 | 2218 | 3096 | 3635 | 1977 | 1780 | 1969 | 2485 | 2989 | 2703 |
| France | 774 | 820 | 840 | 1426 | 2242 | 2525 | 923 | 904 | 974 | 1198 | 1510 | 1665 |
| Switzerland | 108 | 153 | 286 | 314 | 445 | 331 | 263 | 222 | 225 | 276 | 403 | 497 |
| Sweden | 281 | 277 | 312 | 554 | 355 | 291 | 259 | 228 | 190 | 223 | 322 | 347 |
| Japan | 748 | 853 | 736 | 944 | 950 | 817 | 1372 | 1444 | 1583 | 1661 | 1773 | 2213 |
| Subtotal | 6548 | 7350 | 7312 | 10528 | 13568 | 14610 | 6769 | 6675 | 7459 | 8781 | 10464 | 11516 |
| Sub-Balance Trade | | | | | | | -221 | +625 | -147 | +1747 | +3104 | +3094 |
| Argentina | 9 | 13 | 22 | 25 | 30 | 31 | 225 | 193 | 309 | 289 | 1162 | 2372 |
| Brazil | 76 | 104 | 34 | 20 | 22 | 16 | 369 | 210 | 130 | 160 | 253 | 534 |
| U.S.A | 199 | 272 | 253 | 350 | 151 | 183 | 2007 | 1262 | 1599 | 2487 | 1352 | 1662 |
| Canada | 42 | 49 | 29 | 32 | 30 | 50 | 499 | 368 | 359 | 453 | 972 | 1377 |
| Australia | 3 | 4 | 5 | 5 | 6 | 11 | 407 | 325 | 275 | 393 | 775 | 538 |
| New Zealand | 2 | 3 | 3 | 3 | 3 | 7 | 79 | 119 | 42 | 114 | 167 | 168 |
| TOTAL: | 6875 | 7795 | 7658 | 10963 | 13810 | 14908 | 10355 | 9152 | 10173 | 12677 | 15145 | 18167 |
| Balance of Trade | | | | | | | -3480 | -1357 | -2515 | -1714 | -1335 | -3259 |

## APRIL 26th CORPORATE SPONSOR SEMINAR

The Russian Research Center held its last Corporate Sponsor Seminar of the academic year on April 26th at the Harvard Faculty Club. The theme of the conference was "A Critical Look at the Soviet Economy." The first session of the day was entitled, "Capital Investment, Productivity and Industrial Growth"; the speakers on this panel included Abram Bergson, George F. Baker Professor of Economics, Harvard University; James Noren, Senior Research Analyst Central Intelligence Agency, and John Hardt, Senior Specialist for Soviet Economics, Congressional Research Service. Mr. Bergson opened the morning's panel with a delineation of the numerous problems besetting the Soviet economy. Included in this description were the declining growth rates, the increasing costs of developing energy, and the situation in Eastern Europe. In view of their present problems, Mr. Bergson predicts the Soviets will have little choice but to reduce their defense spending in the next few years. He does not, however, anticipate any major cuts.

Mr. Noren spoke of the problems of Soviet industry, emphasizing that the slowdown has been pervasive, and has not merely been the effect of three bad harvests. He provided six major reasons for the lower growth and volume: 1) raw material shortages 2) insufficient investment or misallocation of investment 3) energy problems 4) labor problems 5) general mismanagement and 6) general competition for military programs. But in concluding his remarks, Mr. Noren put the major share of the blame on "the social factor" or people's attitudes toward their work. Mr. Hardt's assessment of the Soviets' economic problems placed responsibility for the poor performance on the confluence of weather problems, bottlenecks and shortfalls.

The second session of the day was entitled "Labor, Education, Demography, and the Functioning of the Supply System." Participating on this panel were Barney Schwalberg, Professor of Economics, Brandeis University; Joseph Berliner, Professor of Economics, Brandeis University; and Felix Kogan, formerly of the Soviet Meteorological Institute in Moscow, and presently at the Atmospheric Science Department, University of Missouri.

Barney Schwalberg reported that the natural increase in the Soviet population may drop below 1% in the next several decades. The reasons are attributable to a decreasing birth rate and a rising mortality rate; most significant is the latter which has been linked to an increase in infant mortality and adult male age specific death rates. The Soviets also experience rather dramatic cyclical swings in increments to the labor force, a pattern which causes problems for Soviet planners. In the face of labor shortages, Mr. Schwalberg asked, can the Soviets effectively reallocate labor to make the most efficient use of it.

Joseph Berliner spoke of the various reforms under effect in the Soviet planning mechanism. One important change is the rule that ministries may no longer reduce the annual targets of their enterprises. The hope is that this will result in more realistic plans. Perhaps most significant of the reforms, however, is the introduction of a new indicator of performance and output called normative net output. This means that the price assigned a good represents the full wholesale price minus the cost of materials. This reform is designed to discourage "gold-plating" or the tendency of industries to choose products requiring excessively expensive components. The central element of all the reforms is an attempt to gain stability. Hopefully increased stability will improve incentives, but it is a costly and inefficient way to achieve this.

Felix Kogan spoke of the USSR's requirements for grain and the Soviets' potential for meeting those requirements in the future. Traditionally there are two methods of improving production. One, the most efficient way, is to improve technology. The second is to expand the area under cultivation. Since the early 1970s, very little new land for grain production has been developed. Mr. Kogan views weather as the major cause for the Soviets' difficulties in grain production: 2/3 of the best land is located in dry areas with frequent water deficit Mr. Kogan predicts that the Soviet Union will meet its requirements for grain in 50-75 years. This will be accomplished due to the low rate of population growth, not improved technology.

The last panel discussion of the day was entitled "Foreign Trade Trends and Energy." The participants on this panel were Valentine Zabijaka of the Office of East-West Country Affairs, U.S. Department of Commerce, and Marshall I. Goldman, Professor of Economics, Wellesley College and Associate Director of the Russian Research Center.

Mr. Zabijaka spoke of the trends in Soviet foreign trade policy over the last several decades, and then provided his predictions for the future. The Soviets have traditionally avoided or postponed crucial decisions regarding economic policy, but Mr. Zabijaka now feels that political and economic events will force the Soviets to make substantial changes. Because of these political and economic events, he predicts a period of adjustment and stagnation in the late 1980s. The USSR will probably conduct most of its trade with its communist counterparts by the mid-1980s.

Marshall Goldman attributed the Soviets' problems in their foreign trade sector to a combination of weather, the events in Poland, the world recession, and the international (in particular the U.S.) interest rate. Although the Soviets clearly have a hard curency problem, Mr. Goldman pointed out, they are very capable of moving to reverse a rising deficit and are basically very conservative. There are now signs, however, that the Soviet Union is moving inward, in large part due to the increased demands of Eastern Europe.

Ellen Lapenson

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CURRENCY FIGURES

| Rubles Purchased Per 100: | April 1981 | March 1982 | April 1982 |
|---|---|---|---|
| Austrian shilling | 4.72 | 4.33 | 4.29 |
| U.K. pound | 155.85 | 130.00 | 128.05 |
| W. German mark | 33.13 | 30.32 | 30.05 |
| U.S. dollar | 71.60 | 71.90 | 72.55 |
| French franc | 14.04 | 11.89 | 11.56 |
| Japanese yen | .332 | .302 | .294 |
| Italian lira | .066 | .056 | .054 |
| Swiss franc | 36.33 | 38.23 | 37.00 |

The currency exchange rates released by Gosbank for April 1982 show that only the U.S. dollar increased in value from the preceding month. All other currencies reported here fell from March 1982. The same trend is noted when comparing last year's figures to the present month.

SOVIET BALANCE OF TRADE ADJUSTMENTS

Readers of this Newsletter will remember that in the report of the second quarter foreign trade statistics for the Soviet Union we indicated that the Soviet Union was heading for a trade deficit of close to $10 billion for all of 1981. There seemed to be a slight improvement at the end of the third quarter. Now, much to our amazement, it turns out that the trade deficit for all of 1981 amounted to only 3.3 billion rubles, which was less than $5 billion. Apparently what took place is that just as they did in 1976, the Soviets have made some heroic adjustments. They increased their exports during the fourth quarter of petroleum. That is best indicated by the fact that as the table indicates, exports to the Netherlands increased by 357 million rubles, approximately $500 million. That was a very significant jump compared to the increase in exports during the fourth quarter of 1980 which totalled only 139 million rubles or approximately $200 million. The likelihood is that the majority of that increase which took place during the last quarter of 1981 was petroleum, and after all, the Netherlands is the home of the Rotterdam spot market.

At the same time, the Soviets also cut back on their imports. For example, imports were cut back sharply in the case of Brazil. As of October 1st, total imports from Brazil in 1981 amounted to 523 million rubles. As of the end of the year, they had increased by only 12 million rubles more. Clearly the Soviets are doing their best to assure their credit standing and that they will have the hard currency to pay not only their bills, but apparently Poland's as well.

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The Russian Research Center takes no official stand on any economic or political matter. The views and analyses expressed in this Newsletter are those of the authors directly associated with the article in question; or unless otherwise stated, with those of the editor, Marshall I. Goldman.

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# RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Vol. VI, No. 9

June 7, 1982

## INDUSTRIAL PRODUCTION FOR THE FIRST FOUR MONTHS OF 1982

| Product | April 1982 | Jan.-April 82 | % Jan.-April '82 over Jan-April 1981 |
|---|---|---|---|
| Electricity (bil.kw.hrs.) | 110.0 | 479.0 | 102.0 |
| Petroleum (including gas condensate) (mil. tons) | 50.2 | 200.0 | 100.2 |
| Natural gas (bil.cu.m.) | 40.7 | 166.0 | 107.0 |
| Coal (mil.tns) | 60.7 | 247.0 | 100.1 |
| Steel (mil.tns) | 12.5 | 49.3 | 97.0 |
| Fertilizer (mil. tons) | 2.3 | 9.0 | 100.4 |
| Metal-Cutting Tools (mil. rubles) | 170.0 | 688.0 | 106.0 |
| Computer Tech. (bil. rubles) | .2 | .9 | 107.0 |
| Watches (mils.) | 6.0 | 23.2 | 102.0 |
| Radios (mils.) | .7 | 2.9 | 99.8 |
| Television sets (mils.) | .7 | 2.7 | 102.0 |
| Color t.v.s | .3 | 1.0 | 116.0 |
| Paper(mil.tons) | .5 | 1.8 | 97.0 |
| Cement (mil.tons) | 10.6 | 39.1 | 93.0 |
| Meat (mil. tons) | .5 | 2.6 | 98.0 |
| Margerine (1000 tons) | 132.0 | 507.0 | 103.0 |
| Automotive vehicles (1000s) | 184.0 | 726.0 | 97.0 |
| trucks | 5.2 | 20.4 | 94.0 |
| Tractors (1000s) | 47.7 | 190.0 | 100.3 |

## INDUSTRIAL PRODUCTION FIGURES FOR THE FIRST FOUR MONTHS OF 1982

While the Soviet Union is still having economic difficulties, apparently they are not as severe as they appeared in January of 1982. Thus petroleum production is ahead of where it was last year. In addition, production in April 1982 increased by almost 1% over what it had been in April 1981. Even coal production is up in April 1982 over 1981 by a fraction of a percent. However, there are still some serious problems. For example, steel production id down by about 3%, and production of automotive vehicles is down 3% (the Soviets have stopped publishing a separate figure for the production of automobiles). Even worse, truck production is down 6%. To what extent these difficulties are a function of the events in Poland and the disruption of component supplies or to the general increase in pressure on transportation due to the need to supply troops in Afghanistan is difficult to tell. The fact remains, however, that economic conditions are still quite serious.

At the same time, meat production is down 2% from what it was during the first months of 1981. The difficulties in agriculture are further reflected by the fact that the pig herd is down 1% as is the herd of sheep and goats. The cattle herd is up slightly, however.

## SOVIETS MAKE AVAILABLE A NEW ENGLISH-RUSSIAN ECONOMIC DICTIONARY

The second edition of the English-Russian Economic dictionary has just been released. Edited by A. V. Anikin and some former exchange scholars to the United States such as Kama Kozlova and Vitaly Ozira, the dictionary is an indispensable tool for those who want to translate from English into Russian. It has about 70,000 words and is an enlargement and improvement over the first edition. It is published by the Russkii Iazyk Publishing House in Moscow, and is available through book stores that normally sell Russian publications, such as Kamkin in Washington and Les Livres Etrangers in Paris.

MARSHALL I. GOLDMAN

# The Soviets' problem with food shortages

NEWS ANALYSIS

What is there about the Soviet communist system that transforms what used to be the largest grain exporter in the world into the world's largest grain importer? Immediately prior to the revolution, Russia's grain exports averaged 11 million metric tons a year. After the revolution, exports never exceeded 7.8 million metric tons. This past year, grain imports reached about 42 metric tons, or about 25 percent of the Soviet domestic crop. In addition, meat imports amounted to about one million tons or not quite 10 pounds per person. Yet, despite these imports, meat rationing either formally or informally, has been imposed in almost all Soviet cities except Moscow, Leningrad and Kiev. In addition, a survey last month by Radio Free Europe on food conditions in 1981 showed that even bread supplies were sometimes unavailable.

That it has been necessary to reintroduce rationings 65 years after the revolution is obviously a political embarrassment. Nor is it easy to explain why there are such shortcomings despite the fact 20 percent of the Soviet population is engaged in agriculture. The comparable number in the United States is only 2 percent of the population. Against this background, President Leonid Brezhnev last week called a special meeting of the Central Committee of the Communist Party to consider what should be done. The discussions, both last week and last November, when Brezhnev first brought up the issue, were remarkably candid. Unfortunately, candor alone will not bring a solution.

The poor food supply is a result of several factors. First, the Soviet Union has had an unusually long streak of bad weather. But while three consecutive bad weather years is unique, the nation has always been vulnerable to the weather – much more so than the United States. In part, this is because the Soviet Union's agricultural land is so much farther north than comparable American fields. Thus, if it is not too cold or too hot, it is often too dry.

But weather is not the only problem. The Soviet population has increased in size since the revolution and has also increased its desire for better quality and more varied foods, particularly meat. Whatever is available disappears into consumers' mouths faster.

Yet the biggest problem is not demand but supply. Poor supply, in part, is a consequence of Stalin's decision to collectivize agriculture. To win peasant support for the revolution, the Bolsheviks agreed to confiscate the landlords' land and give it to the peasants. But a decade later, Stalin changed his mind and took the land away from the peasants. The peasants felt they had been double-crossed and the Soviet regime became the enemy. Production in Soviet agriculture since then has been very disappointing. While there has been some improvement associated with the increased use of fertilizer and pesticides and periodic increases in incentives, the peasants are still very resentful. But even if the Soviet leadership should somehow make up to the peasants for all the years of deprivation, there is another problem that has to be faced on the supply side – Soviet investment in agriculture has been largely misdirected. Brezhnev himself has complained that the Soviets have concentrated on the wrong projects for the wrong purposes. Despite the fact that the investment in agriculture now totals 27 percent of all investments compared to an agricultural investment in the United States that equals about 5 percent of all investments, there seems to be very little return on the net Soviet investment.

In large part that is because that investment has gone for a limited number of big but showy storage facilities and irrigation and drainage operations. Unfortunately, the Soviets have not spent much on barns on each farm or on farm-to-road markets. That means that when the peasants finally rouse themselves to harvest their crops, they leave as much as one-third of their potatoes in the field because there are no nearby storage facilities. The state-built storage and processing facilities tend to be concentrated in centers often 300 to 400 miles away from the fields they are expected to serve. But since the hard-surface roads network is so primitive, it is not easy to reach these centers, especially in the spring and in the fall when the dirt roads turn into mud. More than a quarter of all Soviet farms have no roads connecting them with the outside world.

These are not problems that can be quickly remedied – a new road system cannot be built up overnight. Similarly, no matter how much more the peasants are paid for their crops, it will take them time to build up their confidence in the state. Moreover, Brezhnev's proposal to set up agricultural associations at regional levels is no more likely to be a cure-all now than it was when in Khrushchev's day when slightly similar ideas were proposed. Thus, even if the weather does improve, the Soviet Union will probably continue to find itself short of food, a condition that sooner or later may turn out to be politically explosive both domestically and internationally.

*Marshall I. Goldman is a professor of economics at Wellesley College.*

CURRENCY FIGURES

| Rubles Purchased Per 100: | May 1981 | April 1982 | May 1982 |
|---|---|---|---|
| Austrian shilling | 4.65 | 4.29 | 4.40 |
| U. K. pound | 154.45 | 128.05 | 129.78 |
| W. German mark | 32.75 | 30.05 | 30.90 |
| U.S. dollar | 71.60 | 72.55 | 70.70 |
| French franc | 13.83 | 11.56 | 11.84 |
| Japanese yen | .330 | .294 | .302 |
| Italian lira | .065 | .054 | .055 |
| Swiss franc | 35.95 | 37.00 | 36.50 |

The currency exchange rates released by Gosbank for May 1982 show an increase in value for several currencies reported here. The U.S. dollar and Swiss franc were the only currencies to drop in value from the preceding month.

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The Russian Research Center takes no official stand on any economic or political matter. The views and analyses expressed in this Newsletter are those of the authors directly associated with the article in question; or unless otherwise stated, with those of the editor, Marshall I. Goldman.

Russian Research Center 1982

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# RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Vol. VI, No. 10 July 2, 1982

## INDUSTRIAL PRODUCTION FOR THE FIRST FIVE MONTHS OF 1982

| Product | May 1982 | Jan.-May 82 | % Jan.-May, 1982 over Jan. - May, 1981 |
|---|---|---|---|
| Electricity (bil.kw.hrs) | 105.0 | 584.0 | 102.0 |
| Petroleum (including gas condensate) (mil. tons) | 52.0 | 252.0 | 100.4 |
| Natural Gas (bil.cu.m.) | 41.3 | 207.0 | 108.0 |
| Coal (mil.tns) | 57.5 | 304.0 | 100.5 |
| Steel (mil.tns) | 12.9 | 62.2 | 97.0 |
| Fertilizer (mil.tons) | 2.4 | 11.4 | 102.0 |
| Metal-Cutting Tools (mil. rubles) | 172.0 | 861.0 | 106.0 |
| Computer Tech. (bil.rubles) | .2 | 1.1 | 105.0 |
| Watches (mils.) | 5.8 | 29.0 | 102.0 |
| Radios (mils.) | .7 | 3.6 | 100.5 |
| Television sets (mils.) | .7 | 3.4 | 103.0 |
| Color TVs | .3 | 1.2 | 116.0 |
| Paper (mil.tns) | .5 | 2.2 | 98.0 |
| Cement (mil.tns) | 10.9 | 50.0 | 98.0 |
| Meat (mil. tons) | .5 | 3.1 | 97.0 |
| Margerine (1000 tons) | 128.0 | 635.0 | 104.0 |
| Automotive vehicles (1000s) | 177.0 | 904.0 | 99.0 |
| trucks | 4.8 | 25.2 | 96.0 |
| Tractors (1000s) | 45.5 | 236.0 | 100.9 |

## INDUSTRIAL PRODUCTION FOR THE FIRST FIVE MONTHS OF 1982

The production trends we noted in last month's Newsletter continue to be in effect. Petroleum production for May 1982 is up almost 2 million tons from last month alone. The figure for the first five months of the year over last year continues to rise by a fraction of a percent. Clearly the Soviets are making a gradual recovery from their setback in production in January of this year.

Steel production continues to be a problem for the Soviets, remaining at a level 3% lower than last year. Automotive vehicles and trucks are still below the previous year's level. In addition, the meat production figures are not any brighter than they were last month; indeed, production is down 3% from what it was in the first five months of 1981.

On the brighter side for the Soviets, not surprisingly, natural gas output continues to rise. Production figures show an impressive 8% rise over last year at this time.

## NEXT CORPORATE SPONSOR SEMINAR

The next Corporate Sponsor Seminar of the Russian Research Center is scheduled for November 8, 1982 at the Harvard Faculty Club. The theme of the meeting shall be: "Energy in the Soviet Union: A Fourth Look." This topic has traditionally drawn some of our largest attendances, so mark your calendars now. The program and application form should be included in our August Newsletter.

## SOVIET BALANCE OF TRADE WITH EASTERN EUROPE

| | Exports from USSR | | | Imports to USSR | | |
|---|---|---|---|---|---|---|
| | 1979 | 1980 | 1981 | 1979 | 1980 | 1981 |
| Bulgaria | 3313 | 3660 | 4375 | 3174 | 3439 | 3697 |
| Czechoslovakia | 3363 | 3648 | 4380 | 3183 | 3536 | 4105 |
| GDR | 4217 | 4873 | 5526 | 3917 | 4327 | 5155 |
| Hungary | 2741 | 2982 | 3307 | 2414 | 2757 | 3300 |
| Poland | 3838 | 4406 | 4931 | 3718 | 3596 | 3221 |
| Romania | 1078 | 1350 | 1779 | 1068 | 1441 | 1673 |
| | 18,550 | 20,919 | 24,298 | 17,474 | 19,096 | 21,151 |
| Balance of Trade Overall | | | | | | |
| | +1076 | +1823 | +3147 | | | |
| USSR-Poland | +120 | +810 | +1710 | | | |

CURRENCY FIGURES

| Rubles Purchased Per 100 : | June 1981 | May 1982 | June 1982 |
|---|---|---|---|
| Austrian shilling | 4.44 | 4.40 | 4.28 |
| U.K. pound | 147.65 | 129.78 | 127.83 |
| W. German mark | 31.40 | 30.90 | 30.08 |
| U.S. dollar | 75.40 | 70.70 | 72.50 |
| French franc | 13.21 | 11.84 | 10.91 |
| Japanese yen | .336 | .302 | .292 |
| Italian lira | .063 | .055 | .053 |
| Swiss franc | 35.77 | 36.50 | 35.27 |

The currency exchange rate figures released by Gosbank for June 1982 show that only the U.S. dollar rose in value from the preceding month. All currencies reported here, including the dollar, dropped in value from the preceding year.

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The Russian Research Center takes no official stand on any economic or political matter. The views and analyses expressed in this Newsletter are those of the authors directly associated with the article in question; or unless otherwise stated, with those of the editor, Marshall Goldman.

Russian Research Center 1982

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# RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Vol. VI, No. 11 August 5, 1982

INDUSTRIAL PRODUCTION FOR THE FIRST SIX MONTHS OF 1982

| Product | Jan.-June 1982 | % Jan.-June 1982 over Jan.-June 81 |
|---|---|---|
| Electricity (bil. kw. hours) | 686.0 | 103.0 |
| Petroleum (including gas condensate) (mil. tons) | 303.0 | 100.4 |
| Natural Gas (bil.cu. meters) | 247.0 | 108.0 |
| Coal (mil. tons) | 363.0 | 101.0 |
| Steel (mil. tons) | 74.5 | 98.0 |
| Fertilizer (mil.tns) | 13.8 | 102.0 |
| Metal-Cutting Tools (mil. rubles) | 1047.0 | 105.0 |
| Computer Techology (bil. rubles) | 1.4 | 106.0 |
| Watches (mils.) | 35.0 | 102.0 |
| Radios (mils.) | 4.3 | 100.3 |
| Television sets (mils) | 4.1 | 103.0 |
| Color TVs (mils) | 1.5 | 116.0 |
| Paper (mil. tons) | 2.7 | 98.0 |
| Cement (mil. tons) | 60.8 | 95.0 |
| Meat (mil. tons) | 4.3 | 98.0 |
| Margerine (1000 tons) | 762.0 | 105.0 |
| Automotive vehicles (1000s) | 1083.0 | 99.0 |
| trucks | 30.3 | 98.0 |
| Tractors (mils) | 24.1 | 100.4 |

As the accompanying table shows, Soviet industrial production continues to increase at a very slow rate. Industrial conditions seem a bit improved over what they were last year at this time. In particular, coal production seems to have recovered. For the last several years production has been dropping at about 1% or more a year. So far for the first half of 1982, coal production is up 1% over the comparable period of 1981. In particular, during the month of June, coal production increased at a rate of about 2% a year.

Similarly, petroleum production continues to increase. For the whole six months period, production increased .6%. However, for the month of June, the figure appears to be close to 2% compared to production in June 1981.

Conditions in the steel industry remain bleak, however. Production for the six month period as a whole is down 2% from what it was in the preceding year. For the month of June, however, production is about the same.

The production of meat for the first six months is 2% more than it was in the preceding year. The sale of meat, however, in government stores shows an increase of about 1%. There is no indication of how meat sales on the collective farm markets compare with meat sales over the similar period of 1981. Reports persist that there is a significant shortage of meat. Interestingly, retail sales in the state stores of bread show a drop of 1%. That is one of the first times such a report has appeared.

The pig herd continues to drop as does the herd of goats and sheep. The goat and sheep herd is down about 2% from what it was the preceding year. The number of chickens has increased by about 2%. At the same time, the amount of land under cultivation in 1982 dropped from what it was in 1981. The sown land amounted to 214.1 million hectares in 1982 compared with 214.7 million hectares in 1981. In particular, there is less land being utilized for wheat production.

## FOREIGN TRADE HANDBOOK

The foreign trade statistics for 1981 have now been published in their entirety. Entirety, however, no longer means what it once did. Thus the Soviets have omitted since 1977 the trade figures which show volume of exports. In other words, they only publish trade statistics showing the ruble volume of trade for significant number of goods. Nonetheless, the trade statistics still show some very significant data.

For example, hard currency coal exports from the Soviet Union dropped sharply. This is probably the result not only of falling coal production inside the Soviet Union, but of the need to utilize more domestic coal at home because of the drop in Polish coal exports.

Another notable change in Soviet trade practices is the rather sharp drop of machinery imports from the capitalist world. For example, machinery imports totaled only $3.7 billion compared to a figure of over $5 billion in 1980.

The Soviets imported very significant quantities of energy from Iran in 1981. Since natural gas exports probably did not increase significantly from 1980 to 1981, the bulk of that trade probably is due to petroleum imports into the Soviet Union. Offsetting that, however, is the fact that petroleum imports from Iraq dropped sharply in 1981.

Another notable change in the export figures is the fact that petroleum exports to Romania rose sharply in 1981 so that they were almost double that of the preceding year.

## CONFERENCE FOR JOURNALISTS

The Russian Research Center and the Nieman Foundation will hold their first conference for journalists interested in the Soviet Union.

The Russian Research Center in conjunction with the Nieman Foundation of Harvard University have scheduled a special one-day program for journalists interested in the Soviet Union. As frustrating as it may be, we hope to restrict the audience only to journalists. The conference is scheduled for Monday, October 18th.

In addition to a formal discussion of political, military, economic, and sociological issues facing the Soviet Union today, there will be a special panel discussion made up of journalists who have covered the Soviet Union. This panel will consist of Robert Kaiser of The Washington Post, Kevin Klose also of the The Washington Post, and Marvin Kalb, formerly of CBS, now with NBC News. In addition, depending on his schedule, Hedrick Smith of The New York Times has tentatively agreed to participate as well.

Anyone knowing of a journalist, or anyone interested in attending, should contact Marshall Goldman at the Russian Research Center, 1737 Cambridge Street, Cambridge, MA 02138, telephone (617) 495-4038.

## LETTERS TO THE EDITOR

Keith Bush in Munich sent us a citation from Sotsialisticheskaia industriia. The article quotes a factory manager of the Moskvich manufacturing plant. He explains why Moskvich automobile production fell from 190,000 automobiles in 1980 to 179,000 automobiles in 1981, and why the plan must further reduce for 1982 to 175,000 automobiles. According to the manager, this was done in an effort to improve quality.

Keith notes that this simple explanation seems important to keep in mind because some sources, probably including this Newsletter, have hinted that some of the decline in automobile production may be due to a switch in production to tanks.

We would only add that the drop in production of 15,000 should, however, have been made up for by increased production by the Lada factory, which produces significantly more automobiles each year.

Boston Globe, Monday, July 26, 1982, p. 4.

MARSHALL I. GOLDMAN

# The Bulgarians take a trip down a capitalist road

Despite the dismal results of Poland's attempt to revitalize its economy by importing Western technology, some of Poland's East European neighbors are still attempting to transplant Western technology onto their planning systems. That any of them are still trying at this stage is fascinating enough; that one of the most eager is Bulgaria, hitherto considered the least venturesome Communist country in Eastern Europe is even more fascinating; and that to do this the Bulgarians have authorized the formation of joint ventures with ownership shares extended to the capitalist investor is the most fascinating.

NEWS ANALYSIS

One of the lessons of the Polish trauma is that as attractive as it might have been, simply buying a "turn-key" plant from a Western manufacturer is not in itself enough to guarantee that the factory will realize its full potential. Under a "turn-key" arrangement, the Western contractor agrees to build the factory and turn over the keys when the factory is in working order. That's the end of the contractor's involvement.

But as the Poles quickly discovered, building the factory and operating it are two separate acts. Foreign contractors had problems enough building their factories. The sites chosen by the Polish customers were often ill-suited and inadequately supplied with such basic items as transportation, electricity and a good road network.

In addition, Western suppliers did not always provide the most suitable technology. In some cases, it was too advanced for Poland's economy and in some cases it was too backward. That was sometimes the fault of the foreign seller, but just as often the fault of the Polish planners, who inevitably insisted upon having the latest technology, often on a scale unsuited for Polish needs.

So in one instance the Poles insisted on having a television bulb manufacturing plant with a productive capability of 1½ million bulbs. They were to be sent to a factory with a capacity to produce only 300,000 tubes, which in turn were to be sent to a plant that could produce only 150,000 sets. When the foreign suppliers pointed out the excess capacity and the amount of waste involved, and suggested a more balanced and more modest set of factories, the Poles warned that if the suppliers didn't want to do as they were told, the contract would be turned over to another supplier.

What the Bulgarians have now come to realize is that there may be a better way to import capitalist technology – even though the process may be more embarrassing in an ideological sense.

> 'Be careful! Be sure to avoid investing in a country that might some day decide to nationalize its industry.'
>
> –A Yugoslav lawyer

As the Bulgarians now seem to understand, a "turn-key" purchase is a bit like a heart transplant. They know the factory they buy was originally designed for a system predicated on profits and scarcity; it must be implanted onto another system, where planning is the rule – not profit – and where scarcity (in theory, at least) plays little if any role. Just like a heart transplant, the receiving body tends to reject the alien creature. After a time, the medical profession has discovered some ways to deal with such rejections: Doctorshad to devote extra attention to the transplant.

The analogy is not perfect, but the Bulgarians now realize that technology transplants, too, need extra care and attention. As they and several other Eastern European countries now see it, the way to generate that care is to offer the transplanter an extra and ongoing incentive. Under the new Bulgarian plan, that incentive will come from offering the foreign investor a share in the equity. That means that for the first time since the Communists took over control in Bulgaria, it is now possible for a foreign investor to own a major share of a Bulgarian enterprise and to participate in the profits.

The Bulgarians hope this will not only attract more technology than they would otherwise have found, but that this technology will be financed by the capitalist investor, who will then put in extra effort to insure that the venture ultimately operates efficiently and that it keeps abreast of technological innovations that may be found in the capitalist's own plant.

All the evidence suggests that, at best, the Soviet Union is watching such a radical departure and turn to the West by its most subservient ally with considerable skepticism and concern. Who knows where this could lead?

If such Bulgarian joint ventures prove successful enough, the Bulgarians themselves may consider opening up equity ventures in third countries. If this happens, the Bulgarians would do well to heed the warning recently written by a Yugoslav lawyer for a Yugoslav firm about to make similar overseas investments:

"Be careful!" the Yugoslav lawyer warned. "Pick the country you choose to invest in with care. Remember, investing in foreign countries can be risky. Be sure to avoid investing in a country that might some day decide to nationalize its industry"!

*Marshall I. Goldman is professor of Economics at Wellesley College and has finished a new book, "The Soviet Union in Crisis: The Failure of the Stalinist Model."*

## CORPORATE SPONSOR CONFERENCES BEGIN THEIR 6th YEAR

We are beginning to prepare for our Corporate Sponsor Seminars for the academic year 1982-83. The first conference is scheduled for November 8th, and as usual it is to be held in the Harvard Faculty Club. The subject for the first conference will be "Energy: A Fourth Look." The full program has not been drawn up yet but one of the major issues to be discussed will be the natural gas pipeline. We already have a commitment from Dr. Wilfried Czerniejewicz, Vice President of Ruhrgas, to make a presentation spelling out German views on the issue.

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## CURRENCY FIGURES

| Rubles Purchased Per 100: | July 1981 | June 1982 | July 1982 |
|---|---|---|---|
| Austrian shilling | 4.43 | 4.28 | 4.21 |
| U.K. pound | 143.70 | 127.83 | 126.88 |
| W. German mark | 31.23 | 30.08 | 29.70 |
| U.S. dollar | 75.70 | 72.50 | 73.50 |
| French franc | 13.10 | 10.91 | 10.65 |
| Japanese yen | .332 | .292 | .288 |
| Italian lira | .062 | .053 | .052 |
| Swiss franc | 36.66 | 35.27 | 34.73 |

The currency exchange rate figures released by Gosbank for July 1982 show a familiar pattern: the U.S. dollar rose in value during the month, while all other currencies reported here decreased in value.

The Russian Research Center takes no official stand on any economic or political matter. The views and analyses expressed in this Newsletter are those of the authors directly associated with the article in question; or unless otherwise stated, with those of the editor, Marshall I. Goldman.

Russian Research Center 1982

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HARVARD

# RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Vol. VII, No. 1

September 1, 1982

## INDUSTRIAL PRODUCTION FOR THE FIRST SEVEN MONTHS OF 1982

| Product | July 1982 | Jan.-July 82 | % Jan.-July 1982 over Jan.-July 1981 |
|---|---|---|---|
| Electricity (bil. kw. hours) | 103.0 | 788.0 | 103.0 |
| Petroleum (including gas condensate) (mil.tons) | 52.0 | 355.0 | 100.5 |
| Natural Gas (bil.cu.meters) | 40.2 | 287.0 | 108.0 |
| Coal (mil.tons) | 59.6 | 423.0 | 101.0 |
| Steel (mil.tns) | 12.3 | 86.8 | 98.0 |
| Fertilizer (mil. tons) | 2.2 | 16.0 | 103.0 |
| Metal-Cutting Tools (mil. rbls) | 167.0 | 1215.0 | 105.0 |
| Computer Technology (bil. rubles) | .2 | 1.6 | 106.0 |
| Watches (mils.) | 5.8 | 40.8 | 102.0 |
| Radios (mils.) | .7 | 5.1 | 100.0 |
| Television sets (mils.) | .7 | 4.8 | 102.0 |
| Color TVs (mils.) | .3 | 1.8 | 116.0 |
| Paper (mil.tons) | .5 | 3.1 | 99.0 |
| Cement (mil. tons) | 10.7 | 71.4 | 96.0 |
| Meat (mil. tons) | .5 | 4.4 | 98.0 |
| Margerine (1000 tons) | 97.0 | 859.0 | 109.0 |
| Automotive Vehicles (1000s) | 179.0 | 1261.0 | 99.0 |
| Tractors (1000s) | 44.2 | 325.0 | 99.8 |

Production seems to have improved a little bit from what it was earlier in the year. The most notable improvement is the increase in coal production. Coal production has been falling steadily since 1978. This marks the first year in which there seems to have been any steady improvement. For the seven months as a whole, production is up 1%. More striking, however, is the fact that production in August 1982 was up 3.7% over coal production in August 1981. That reflects a remarkable turnaround, given the fact that coal production was falling at a rate of 1-2% a year previously.

Similarly, steel production is up by about 1%. That also has been a problem area.

Oil production continues to increase, although at a much slower rate than previously. It has grown at .5% for the seven months of 1982 as well as in August 1982 over August of 1981.

The food situation continues to be rather bleak, however, Meat production, defined as meat produced from government stocks, was 98% for the first seven months of 1982 compared to the comparable period of 1981. And, as has been true for the last few months, the pig herd is down slightly and the goat and sheep herd is down about 2%. In what seems to be a turnabout, the Soviets seem to be increasing their emphasis on chicken production. The number of chickens has increased by about 3%. Moreover, a recent visitor from Leningrad reports that while there was chicken in some of the fancier hotels, he seldom saw meat, even in the Bar and Grille of the Europeskaia Hotel. There also have been widely reported shortages of milk and cheese.

## CORPORATE SPONSOR SERIES

Our seventh annual series of Corporate Sponsor Seminars begins on November 8th, 1982 at the Harvard Faculty Club. The preliminary version of the program is included along with

a registration form. We are still waiting to hear from one or two other potential speakers, As it is, however, we think the program should be an interesting one.

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## CONFERENCE FOR JOURNALISTS

As we announced last month, the Russian Research Center and the Nieman Foundation for Journalism will hold a one-day conference on Monday, October 18th. This is intended for journalists interested in reporting and editing news from the Soviet Union. The response so far has been very good, and we expect not only an interesting program, but an interesting audience. For more information, contact Marshall Goldman at the Russian Research Center, 1737 Cambridge Street, Cambridge, Massachusetts 02138 or call (617) 495-4038.

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## ARDEN HOUSE CONFERENCE

We now have the formal dates for the Arden House Conference. The dates will be Friday, February 25th to Sunday noon, February 27th. The conference will be a little earlier than has been the case in the past. We hope to announce the program shortly. In the meantime, please mark a note in your calendar.

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## WE SLIPPED A DIGIT

In looking over the August issue of our Newsletter, we noticed that we had listed the issue number 11. In fact, it should have been listed as number 12. During the course of the year, we slipped a digit and the March and April issues were both listed as number 7. To correct the mistake, we are therefore listing this issue as Volume VII, No. 1.

Subscribers should not fear that we have not given them their moneys worth, or have issued a combined August-September issue What that does indicate, however, is that we are about to celebrate our sixth year of publication. For what it is worth, and some readers may feel that it is worth nothing, we continue to be amazed at our endurance. Thus we embark on our seventh year.

## SOVIET BALANCE OF TRADE WITH EASTERN EUROPE FOR THE FIRST HALF OF THE YEAR

The Soviets have released a preliminary version of their balance of trade statistics with Eastern Europe for the first half of 1982. There have been some interesting developments.

The most impressive thing is that the Soviet Union seems to have reduced its trade surplus with Poland. Given that the Soviet Union is not interested in building up mercantilist trade surpluses, this should be regarded as a positive sign from the Soviet Union's point of view. Whereas for the first six months of 1981, the Soviet Union had a trade surplus of 800 million rubles with Poland during the first half of 1982, that has been reduced by over a quarter of a million rubles to 483 million rubles. That means that unlike the change between 1980 and 1981, when Poland's exports to the Soviet Union dropped by almost 300 billion rubles, in the most recent period of time, exports to the Soviet Union from Poland have increased by over 200 million rubles. They are still below the export levels attained for the first half of 1980, but do exceed those for 1979. They ideal status from the point of view of the Soviet Union is the trade balance that exists bewteen the Soviet Union and Czechoslovakia, and the Soviet Union and Hungary. The only country in Eastern Europe which now has a significant trade surplus in its dealings with the Soviet Union is Romania, which increased its trade surplus to a quarter of a million rubles. These changes also explain why the overall balance of trade between the Soviet Union and Eastern Europe has been reduced to under a half billion rubles from the 1.1 billion rubles for the corresponding period of 1981.

SOVIET BALANCE OF TRADE WITH EASTERN EUROPE
FOR THE FIRST HALF OF THE YEAR

(in million rubles)

| | Exports from the USSR | | | | Imports to the USSR | | | |
|---|---|---|---|---|---|---|---|---|
| | 1979 | 1980 | 1981 | 1982 | 1979 | 1980 | 1981 | 1982 |
| Bulgaria | 1718 | 1804 | 2209 | 2373 | 1550 | 1801 | 1880 | 2259 |
| Czechoslovakia | 1698 | 1797 | 2090 | 2460 | 1556 | 1824 | 2090 | 2491 |
| GDR | 2017 | 2340 | 2641 | 3093 | 1909 | 2100 | 2568 | 2902 |
| Hungary | 1319 | 1448 | 1647 | 1791 | 1159 | 1362 | 1615 | 1794 |
| Poland | 1924 | 2084 | 2459 | 2365 | 1742 | 1939 | 1654 | 1880 |
| Romania | 547 | 680 | 711 | 660 | 550 | 703 | 815 | 921 |
| | 9223 | 10153 | 11757 | 12740 | 8466 | 9729 | 10622 | 12247 |
| Balance of Trade | +757 | +424 | +1135 | +493 | | | | |
| Poland | +182 | +145 | +805 | +483 | | | | |

CURRENCY FIGURES

| Rubles Purchased Per 100: | Aug. 1981 | July 1982 | August 1982 |
|---|---|---|---|
| Austrian shilling | 4.34 | 4.21 | 4.18 |
| U.K. pound | 137.33 | 126.88 | 125.69 |
| W. German mark | 30.24 | 29.70 | 29.32 |
| U.S. dollar | 76.30 | 73.50 | 74.00 |
| French franc | 12.67 | 10.65 | 10.55 |
| Swiss franc | 35.19 | 34.73 | 34.37 |
| Japanese yen | .329 | .288 | .281 |
| Italian lira | .061 | .052 | .057 |

The currency exchange rate figures released by Gosbank for August 1982 show no surprising fluctuations from the preceding month. The only currencies to rise slightly in value during the month were the U.S. dollar and the Italian lira. All other currencies reported here continued to decline.

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The Russian Research Center takes no official stand on any economic or political matter. The views and analyses expressed in this Newsletter are those of the authors directly associated with the article in question; or unless otherwise stated, with those of the editor, Marshall I. Goldman.

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HARVARD

# RRC NEWSLETTER

RUSSIAN RESEARCH CENTER

Vol. VII, No. 2 October 1, 1982

## PRODUCTION FIGURES FOR THE FIRST EIGHT MONTHS OF 1982

| Products | Aug.1982 | Jan.-Aug.82 | % Jan.-Aug. 1982 over Jan.-Aug.81 |
|---|---|---|---|
| Electricity (bil.kw.hrs.) | 104.0 | 892.0 | 103.0 |
| Petroleum (incl. gas condensate) (mil. tons) | 52.2 | 407.0 | 100.5 |
| Natural Gas (bil.cu.mtrs.) | 40.7 | 327.0 | 108.7 |
| Coal (mil.tons) | 58.4 | 481.0 | 102.0 |
| Steel (mil.tns) | 12.3 | 99.1 | 99.0 |
| Fertilizer (mil. tons) | 2.2 | 18.3 | 103.0 |
| Metal-Cutting Tools (mil. rubles) | 168.0 | 1381.0 | 105.0 |
| Computer Tech. (bil. rubles) | .2 | 1.8 | 107.0 |
| Watches (mils.) | 5.7 | 46.4 | 102.0 |
| Radios (mils.) | .7 | 5.8 | 100.4 |
| Television sets (mils.) | .7 | 5.5 | 103.0 |
| Color Televisions (mils.) | .3 | 2.0 | 116.0 |
| Paper (mil.tons) | .5 | 3.6 | 99.6 |
| Cement (mil.tns) | 10.4 | 81.8 | 96.0 |
| Meat (mil.tons) | .7 | 5.1 | 98.0 |
| Margerine (1000 tons) | 63.2 | 922.0 | 107.0 |
| Automotive Vehicles(1000s) | 177.0 | 1438.0 | 99.5 |
| Tractors (1000s) | 44.3 | 370.0 | 100.0 |

While the improvement in production figures at this point is not worthy of a celebration, there is no doubt that the Soviets have managed to solve some of their production problems. Probably the most pressing concern they have had was the continuing decline in coal production which began in 1978. As we reported in the last Newsletter, it increased a bit during the first seven months of 1982. The figures for the first eight months of 1982 are even more promising. Production of coal in August 1982 compared with August 1981 increased almost 6%. That compares with a drop of 5% in production from August 1980 to August 1981. Taken as a whole, therefore, this puts the Soviet Union in August 1982 back at a production level that it had attained in August 1980. For the eight months as a whole, production is up 2%.

Electricity production is also up, although by a much smaller percentage. Production for August 1982 compared to August 1981 was up 4%. For the eight months as a whole, it is up 3%. A year ago, production of electricity was up only 2% over 1980.

Oil production also continues to increase, but at a slower pace. Production for August 1982 is up .6% over the preceding year. For the 8 months as a whole, the growth is just about the same.

That does not mean, however, that the Soviet industrial managers have solved all their problems. Steel production continues to decline. Steel production is down 1% for both the month and the eight months of the year. Similarly, they continue to have production problems in the automobile, cement, and paper industries. In addition, meat production is down by 2%.

The Soviet livestock herd, however, seems to be increasing somewhat. It looks like the pig herd stabilized or actually increased a bit for the eight months of 1982. The sheep and goat herds, however, continue to decline.

Excerpt from The Boston Globe, Sunday, September 5, 1982

COMMENTARY

# US the loser in pipeline battle

*Sanctions against European allies backfiring*

By Marshall I. Goldman
Special to The Globe

Based on the way the Reagan Administration is reacting to the construction of the Soviet natural gas pipeline, it might seem as though a Soviet agent were making the decisions in Washington. For, whatever its intentions, the Administration's actions have served to hurt our allies, discredit the reliability of American business practices and point up the hypocrisy of US trade policy.

Belatedly, there seems to be some recognition in the Administration that the United States has been shooting itself in the pipeline. William Brock, the US special trade representative, suggested in London on Thursday that the United States might be willing to back down a bit, and President Reagan has indeed reduced the range of sanctions initially announced.

On Aug. 26, the Administration ordered a complete ban on American exports to Dresser France, a subsidiary of Dresser Industries of the United States, and Creusot-Loire of France because they had shipped compressors to the Soviet Union for the pipeline. The United States had ordered both companies not be send the compressors to the Soviet Union, but the French government had warned that if those companies in France failed to honor their export contracts, the companies would be in violation of French law.

Admittedly, designing a policy to deal with the Soviet natural gas pipeline that satisfied everyone might well have been impossible because there are good arguments on each side. Those who are opposed to the pipeline have argued that:

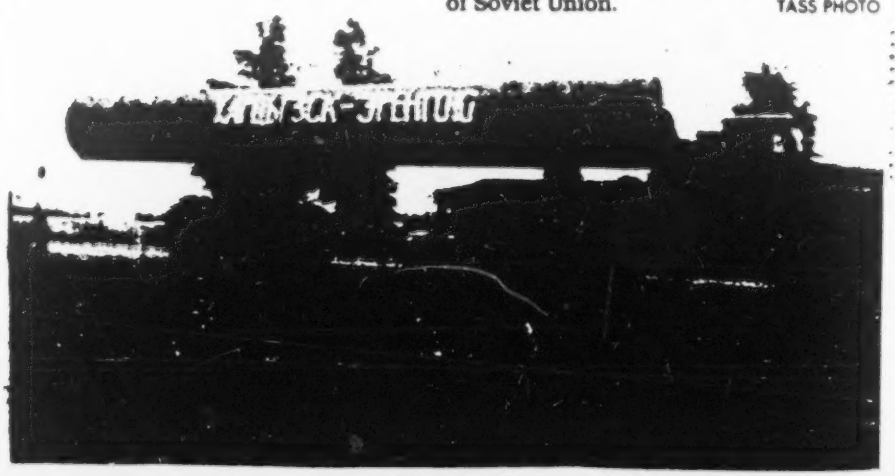
– The Soviet Union should be punished because of its actions in Afghanistan and Poland. Certainly, it is not worth going to war to show our displeasure, but at the least, we should not simply go about our business as if the Soviets were not in Afghanistan and not dictating to Poland. As it is, the countries of Western Europe are not only trading as usual with the Soviets, they are also financing that trade with heavily subsidized credits.

– Once the pipeline is built, the Soviet Union could blackmail Western Europe by threatening to turn off the energy valve. The Soviets did just that to generate political pressure when it cut off oil sales to Yugoslavia in 1948, to Israel in 1956, to Finland in 1958, to China in 1964 and even to Cuba in 1968.

– Without the hard currency earnings of $8 billion to $10 billion from the sale of natural gas, the Soviets would be hard-pressed to pay for the food and technology imports they want. The only way the Soviets could then generate increased production in agriculture and industry would be to make some long-overdue economic and political reforms. With revenue from the sale of natural gas, however, the Soviet Union would not

SANCTIONS, Page 52

Trucks transport pipes for Soviet pipeline to Western Europe in Kursk region of Soviet Union. TASS PHOTO



# Pipeline

## ■ SANCTIONS

only be able to avoid such internal reforms, but also be able to increase military strength.

– By the time the pipeline is completed, the world price of energy may fall below the agreed-upon price, and Western Europeans may find themselves stuck with very expensive energy.

– Pipelines constructed in the northern areas of the Soviet Union will probably use prison labor. How could anyone in the West have anything to do with such a project?

Those in favor of the pipeline point to an even longer list of reasons why it should be built:

– It may be unwise to become dependent on the Soviet Union, but being dependent on countries like Algeria, Iran, Iraq and Libya is just as hazardous. The more suppliers there are, the less likely it is that they will all gang up at once. Moreover, it makes sense to draw upon Soviet energy now and save closer and more stable sources of supply, such as those in Norway, for emergencies and use in the future.

– The employment in Western Europe that will be generated by the equipment and pipe sales is very important. In addition, without contracts, some countries will end up with very serious business losses; one West European supplier, for example, is already going through bankruptcy.

– The United States has no right to expect others to impose an embargo when it continues to sell grain to the Soviet Union, and, indeed, seeks to increase the size of those sales. The argument that the grain sales are different because US food exports take money out of the Soviet Union is specious. Without the imported grain the Soviet Union would probably have food riots; if a policymaker really wanted to hurt the Soviets, the way to do it would be to withhold food.

– Embargoes of this sort have generally not been successful. The United States tried to halt construction of a pipeline between the Soviet Union and Western Europe in 1962-63 and convinced the West Germans to withhold the sale of pipe to the Soviet Union. But the Soviets found another seller and the pipeline was built with only minimal delay.

– While Soviet energy may turn out to be high-priced in the future, the Soviet effort to win a market share has put a damper for the time being on energy prices and forced competitors to offer Western Europe lower prices.

Unfortunately, the issue is no longer a matter of simply weighing one argument against another. Because the United States has issued orders to European companies as well as American subsidiaries operating in Europe that contravene orders issued by the European governments, the confrontation between Western Europe and the United States is no longer academic. Moreover, in some cases, the tension between the United States and Western Europe appears to match that between the United States and the Soviet Union. Do we really expect American subsidiaries and foreign corporations in France, Italy, Germany and the United Kingdom to disobey orders of their own governments in order to adhere to orders issued by the US government? Are we prepared to follow orders from Western European governments to European subsidiaries and American corporations that conflict with orders of the US government?

Whatever the relative merits of the argument, there seems to be little question that the United States has escalated the issue far beyond where it should be. Moreover, we seem so intent on winning this battle that we may find ourselves losing a more important and longer-lasting war: By banning the export of American goods to Western companies that violate US orders, we have begun to treat our allies the way we treat the Russians. Some American officials have even hinted that European corporate officials could be sent to jail if they continued to violate American orders, even though to do otherwise would cause them to violate orders of their own governments. A further irony is that we are now insisting that our corporations do exactly what we criticize the Soviets for doing, to break business contracts for political reasons.

Has the Reagan Administration thought through the long-run consequences of all this? More and more foreign companies are seeking to ensure that their products be designed without American-built components.

It is tragic that the United States should be wasting so much of its political capital on the pipeline when there are so many other more important issues facing the Western world. If we make such a fuss about relatively trivial issues, how can we possibly handle the big issues?

Undoubtedly, there is something immoral about helping the Soviet Union build up its strength at a time when its behavior in Poland and Afghanistan deserves world condemnation. But so far, all the United States seems to have done is hurt our allies more than it has hurt the Soviet Union. Trade embargoes are an inconvenience in the short run, but they cannot be effective in the long run unless everyone agrees to support them, and that has not been the case here. Before we apply an embargo, it must be determined whether the short-run gains will exceed the long-run losses.

Further, a scenario for calling of the embargo should be worked out in advance. What concessions should we expect and what is our fallback position? Generally, our practice has been simply to declare that the embargo is at an end. That is

what President Reagan did when he ended the grain embargo in the spring of 1981. He sought no and obtained no *quid pro quo* from the Soviets. Because Argentina stood ready to take up the unfilled American orders, the grain embargo ended up hurting the American farmer as much or more than it did the Soviet consumer. Has anyone in the Reagan Administration thought through the consequences for the United States of the newest embargo? The West Europeans are clearly determined to continue with the pipeline, and our government seems to be just as resolute in its opposition. What will be the result if neither of us yields?

While the Soviet Union is undoubtedly happy that the Western Europeans are going ahead with the pipeline, the Soviets probably take even more delight from watching the Reagan Administration do its best to split the alliance. We would have done well to cut our losses when we had less to lose. With Reagan's help, the Soviets have turned a modest win into a major victory.

*Marshall I. Goldman is professor of economics at Wellesley and associate director of the Russian Research Center at Harvard.*

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## CORPORATE SPONSOR SERIES

Our first Corporate Sponsor Seminar of the academic year is scheduled for Monday, November 8, 1982 at the Harvard Faculty Club in Cambridge, Mass. The conference is entitled, "Energy in the Soviet Union: A Fourth Look." We have put together what we believe is an interesting program, and a copy of it along with an application is included with this Newsletter.

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## ARDEN HOUSE CONFERENCE

As we announced in last month's Newsletter, the formal dates for the Arden House Conference have been set. The conference will begin Friday evening, February 25th and end Sunday afternoon, February 27th. We are drawing up the program now and hope to announce it shortly. Mark your calendars for February 25-27, 1983.

## CURRENCY FIGURES

| Rubles Purchased Per 100: | Sept. 1981 | Aug. 1982 | Sept. 1982 |
|---|---|---|---|
| Austrian shilling | 4.34 | 4.18 | 4.19 |
| U.K. pound | 137.83 | 125.69 | 126.50 |
| W. German mark | 30.34 | 29.32 | 29.48 |
| U.S. dollar | 75.00 | 74.00 | 73.40 |
| French franc | 12.67 | 10.55 | 10.50 |
| Japanese yen | .326 | .281 | .284 |
| Italian lira | .061 | .057 | .052 |
| Swiss franc | 34.94 | 34.37 | 34.67 |

The currency exchange rates released by Gosbank for September 1982 show an increase in value for several currencies reported here. The U.S. dollar, and the French and Swiss franc were the only currencies to decline in value during the month.

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